Non-QM Guide

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BROKERS FIRST FUNDING
YOUR BFF IN WHOLESALE

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SECTION 1 - OVERVIEW

The purpose of these underwriting guidelines is to ensure each mortgage loan meets Broker First Funding (BFF) quality standards. A loan meets BFF quality standards if the legal documents, borrower's credit, income documentation, quality of the collateral (property), and compliance with all applicable laws are consistent with the loan program under the guide.

All loans must be manually underwritten in accordance with this guide.

credit philosophy is intrinsic to our acquisition platform and includes a practical application of the guidelines when analyzing a loan for approval. Our focus is on aligning the interest of the borrower and limiting layered risk through a combination of:

- verified employment, income, assets, and reserves
- Borrower credit and housing history
- Value of collateral used to secure the loan

Exceptions to published guidelines are considered on a case-by-case basis. Loans requiring an exception are reviewed wholistically taking into account the risk factors noted above. Regardless of exception type, the loan should demonstrate strong compensating factors to support granting an exception. All exception requests must be submitted by the Broker to Flex Point Mortgage by completing the required information on the BFF Exception Request form. Our decision to grant or reject any exception request is based on our role as a potential investor in any related mortgage loan. This decision is not intended to serve as advice regarding any decision to extend credit.

BFFs' decision to approve or not approve any mortgage loan will be based on a full credit, compliance and property review conducted by BFF underwriter. Our decision to approve any mortgage loan will be based on the results of such due diligence review and our own internal policies and procedures.

1.1 - INTEREST CREDIT

Loans closed within the first five (5) days of the month may reflect an interest credit to the borrower.

1.2 - PRINCIPAL CURTAILMENT

The maximum amount of the curtailment cannot exceed the lesser of $2,500 or 2% of the original loan amount.

1.3 - ASSUMABILITY

Fixed Rate Notes are not assumable.

Adjustable-Rate Notes may be assumable based upon the note. Fannie Mae Notes contain an assumable clause. Regardless, the verbiage on the Note and Closing Disclosing must match.

1.4 - PROPERTY INSURANCE

1.4.1 - 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 damage caused by aircraft, vehicle, or explosion.

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

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

- Replacement Cost Estimator from the property insurer or a 3rd party source (i.e., CoreLogic), if provided
- Estimated cost to replace the dwelling from a recent appraisal, if provided
- The unpaid principal balance of the mortgage

1.4.2 - COMMERCIAL GENERAL LIABILITY INSURANCE 2-8 MIXED USE PROPERTIES

Commercial general liability insurance blanket policy against claims for personal injury, bodily injury, death or property damage occurring upon, in or about any property, such insurance to be:

- Per Occurrence Minimum Coverage: $1,000,000
- Aggregate Coverage: $2,000,000
- At least as broad as Insurance Services Office's (ISO) policy form CG 00 01

1.5 - FLOOD INSURANCE

Flood insurance coverage is required when a mortgage loan is secured by a property located in

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

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

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

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

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

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

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

- **1-4 Unit Properties:** If dwelling coverage for hazard insurance is greater than $250,000 then flood coverage must be $250,000 as this is the maximum allowed per FEMA
- **5+ Units Properties:** If dwelling coverage for hazard insurance is greater than $500,000 then flood coverage must be $500,000 as this is the maximum allowed per FEMA.

1.5.1 - ACCEPTABLE FLOOD INSURANCE POLICIES

The flood insurance policy must be one of the following:

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

1.6 - TITLE POLICY REQUIREMENTS

Each loan submitted to Broker First Funding (BFF) must include a title insurance policy. If the file contains the Commitment for Title Insurance, it must indicate the policy will be issued upon payment of the premium. By submitting a mortgage loan to Broker First Funding (BFF) the Broker represents and warrants that the loan is covered by the required title policy, issued by a licensed insurer, and includes any required endorsements. The title insurer and policy must conform to Fannie Mae® requirements.

1.6.1 - TERMS OF COVERAGE

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

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

1.6.2 - EFFECTIVE DATE OF COVERAGE

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

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

1.6.3 - AMOUNT OF COVERAGE

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

1.6.4 - MORTGAGE ELECTRONIC REGISTRATION SYSTEM (MERS)

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

1.6.5 - OTHER REQUIREMENTS

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

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

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

1.6.6 - CHAIN OF TITLE

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

1.6.7 - CONDOMINIUM OR PLANNED UNIT DEVELOPMENTS (PUD)

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

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

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

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

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

The title policy must protect Broker First Funding (BFF) by insuring:

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

- that the owner of a PUD unit is a member of the homeowners' association, and that the membership is transferable if the unit is sold.

1.6.8 - TITLE EXCEPTIONS

Broker First Funding (BFF) will not allow a mortgage secured by property that has an unacceptable title impediment, particularly unpaid real estate taxes and survey exceptions.

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

1.6.9 - MINOR IMPEDIMENTS TO TITLE

Title for a property that secures a conventional mortgage is acceptable even though it may be subject to the following conditions, which Broker First Funding (BFF) considers minor impediments:

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

1.7 - BORROWER CONTACT CONSENT FORM

Brokers are required to provide accurate borrower contact information to Broker First Funding (BFF). For many borrowers, their preferred method of contact is by email, mobile phone, and text. This form of communication requires special authorization from the borrower. Borrower Contact Consent Form must be included in the borrower’s closing package.

1.8 - FLOOD CERTIFICATES

Broker First Funding (BFF) requires Life of Loan Flood Certificates for all first liens. The Broker First Funding (BFF) preferred flood certificate provider is CoreLogic Flood Services. Any loan requiring Flood Insurance must include: an insurance policy that is in compliance with HFIAA and an escrow/impound account for the insurance.

1.9 - MORTGAGEE CHANGE REQUIREMENTS

Broker First Funding (BFF) Funder insure that polices are updated with Its Successors and/or Assigns ISAOA language

- Hazard insurance payee
- Flood insurance payee
- Taxing authority, or the Broker’s tax service vendor
- Title Insurance policy

SECTION 2 - ELIGIBLE PRODUCTS

Loan products are available at Broker First Funding (BFF)

PRODUCT	QUALIFYING RATE*	TERM	I/O TERM	AMORT TERM	INDEX	CAPS
5/6 ARM	Higher of Fully indexed or Note Rate	360	NA	360	30-day avg SOFR	2/1/5
5/6 ARM I/O	Higher of Fully indexed or Note Rate	360	120	240	30-day avg SOFR	2/1/5
5/6 ARM I/O	Higher of Fully indexed or Note Rate	480	120	360	30-day avg SOFR	2/1/5
7/6 ARM	Higher of Fully indexed or Note Rate	360	NA	360	30-day avg SOFR	5/1/5
7/6 ARM I/O	Higher of Fully indexed or Note Rate	360	120	240	30-day avg SOFR	5/1/5
7/6 ARM I/O	Higher of Fully indexed or Note Rate	480	120	360	30-day avg SOFR	5/1/5
10/6 ARM	Higher of Fully indexed or Note Rate	360	NA	360	30-day avg SOFR	5/1/5
10/6 ARM I/O	Higher of Fully indexed or Note Rate	360	120	240	30-day avg SOFR	5/1/5
10/6 ARM I/O	Higher of Fully indexed or Note Rate	480	120	360	30-day avg SOFR	5/1/5
15 YR FIXED	Note Rate	180	NA	180	NA	NA
30 YR FIXED	Note Rate	360	NA	360	NA	NA
30 YR FIXED I/O	Note Rate	360	120	240	NA	NA
40 YR FIXED	Note Rate	480	NA	480	NA	NA
40 YR FIXED I/O	Note Rate	480	120	360	NA	NA

*DSCR documentation type is selected, all ARM products may use the note rate for qualifying.

Additional ARM Criteria			
Adjustment Reset Period	**Lookback Period**	**Margin**	**Floor**
6-months	45-days	See Rate Sheet	Margin

2.1 - QUALIFYING PAYMENT

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

The qualifying payment is based on the amortization term. For interest-only loans, using standard or Alt documentation, this is the remaining term after expiration of the interest-only period. Single asset DSCR loans secured by 1-4 unit properties can be qualified using the interest only payment (ITIA).

2.2 - INTEREST-ONLY RESTRICTIONS - (06/30/2023)

Full Document	Expanded Program	DSCR	FOREIGN NATIONAL
All Occupancy	**All Occupancy**	**Investment**	**Investment**
Minimum Credit Score: 660	Minimum Credit Score: 660	Minimum Credit Score: 660	Eligible – no restrictions
Maximum LTV/CLTV 90%	Maximum LTV/CLTV: 85%	Maximum LTV/CLTV: 80%	

LOAN AMOUNTS

Full Document	Expanded Program	DSCR	FOREIGN NATIONAL
Minimum: $150,000	Minimum: $150,000	Minimum: $150,000	Minimum: $200,000
Maximum: $4,000,000	Maximum: $4,000,000	Maximum: $3,500,000	Maximum: $2,000,000

MINIMUM CREDIT SCORE

Full Document	Expanded Program	DSCR	FOREIGN NATIONAL
640	640	620	680 US Credit or Foreign Credit

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2.3 - SOLAR PANEL REQUIREMENTS

Properties with Solar Panels

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

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

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

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

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

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

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

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

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

The underwriter must:

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

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

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

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

The underwriter must:

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

Scenario 3 – Solar Panel(s) that are leased or covered by a Power Purchase Agreement

- The underwriter must obtain and review copies of the lease or power purchase agreement.
- The monthly lease payment must be included in the DTI ratio calculation unless the lease is structured to:
    - Provide delivery of a specific amount of energy at a fixed payment during a given period, and

  - Have a production guarantee that compensates the borrower on a prorated basis in the event the solar panels fail to meet the energy output required for in the lease for that period.
- Payments under power purchase agreements where the payment is calculated solely based on the energy produced may be excluded from the DTI ratio.
- The value of the solar panels cannot be included in the appraised value of the property
- The value of the solar panels must not be included in the LTV ratio calculation, even if a precautionary UCC filing is recorded because the documented lease or power purchase agreement status takes priority.
  - A “precautionary” UCC filing is one that lessors often file to put third parties on notice of their claimed ownership interest in the property described in it.
  - When the only property described in the UCC filing as collateral is the solar equipment covered by the lease or power purchase agreement, and not the home or underlying land, such a precautionary UCC filing is acceptable (and a minor impediment to title), as long as the loan is underwritten in accordance with this topic.
- The value of the solar panels must not be included in other debt secured by real estate in the CLTV ratio calculation because the documented lease or power purchase agreement status takes priority.
- The property must maintain access to an alternate source of electric power that meets community standards.
- The lease or power purchase agreement must indicate that:
  - Any damage that occurs as a result of installation, malfunction, manufacturing defect, or the removal of the solar panels is the responsibility of the owner of the equipment and the owner must be obligated to repair the damage and return the improvements to their original or prior condition (for example, sound and watertight conditions that are architecturally consistent with the home);
  - The owner of the solar panels agrees not to be named loss payee (or named insured) on the property owner’s property insurance policy covering the residential structure on which the panels are attached. As an alternative to this requirement, the lender may verify that the owner of the solar panels is not a named loss payee (or named insured) on the property owner’s property insurance policy; and
  - In the event of foreclosure, the lender or assignee has the discretion to:
    - Terminate the lease/agreement and require the third-party owner to remove the equipment;
    - Become, without payment of any transfer or similar fee, the beneficiary of the borrower’s lease/agreement with the third party; or
    - Enter into a new lease/agreement with the third party, under terms no less favorable than the prior owner.

2.4 - PRIVATE MORTGAGE INSURANCE (PMI)

Private Mortgage Insurance (PMI) is not required.

2.5 - LOAN DOCUMENTATION

2.5.1 - NOTE AND SECURITY INSTRUMENT FORMS

For consumer loan transactions, the current version of the Uniform Residential Loan Application (URLA) should be used. For business purpose loan transactions, the lender may utilize the URLA or similar lender application.

Available Fannie Mae® security instruments, notes, riders/addenda, and special purpose documents can be used for owner-occupied or investment property loan documentation. The Fannie Mae® forms are available at https://singlefamily.fanniemae.com/selling-and-servicing-guide-forms-and-communications. In instances when Fannie Mae® doesn't offer current documentation (e.g., interest only), a document vendor, such as Doc Magic or Ellie Mae should be used to obtain forms.

For business purpose loans (Investment Property Only), Broker First Funding (BFF) offers a business purpose document set consisting of: Note, Loan Agreement, Personal Guaranty, and Prepayment Rider.

SECTION 3 - AGE OF DOCUMENT REQUIREMENTS - 06/30/2023

3.1 - CREDIT REVIEW DOCUMENTATION

The following documents may not be more than 120 days old at closing (the date the Note is signed):

- Credit Report
- Appraisal Report

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

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

Any credit review documents exceeding these timeframes must be updated.

3.2 - APPRAISAL

Residential Appraisals (1-4 units): The appraisal must be dated within 365 days of the Note date. Recertification of value required if the report would exceed 120 days of the Note Date. See complete appraisal requirements in Appraisal Requirements Section.

Commercial Appraisals (5-8 multi-family, 2-8 mixed use): Appraisals dated fewer than 120 days prior to the note date are acceptable. After 120 days, a new appraisal is required.

SECTION 4 - BORROWER ELIGIBILITY

4.1 - RESIDENCY

4.1.1 - US CITIZEN

Eligible without guideline restrictions.

4.1.2 - PERMANENT RESIDENT ALIEN

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

- Acceptable evidence of permanent residency include the following:
    - Alien Registration Receipt Card I-551 (referred to as a green card).
    - Alien Registration Receipt Card I-551 (Resident Alien Card) that does not have an expiration date on the back (also known as a green card).
    - Alien Registration Receipt Card I-551 (Conditional Resident Alien Card) that has an expiration date on the back, and is accompanied by a copy of the filed INS Form I-751 (petition to remove conditions).
    - Non-expired foreign passport that contains a non-expired stamp (valid for a minimum of three years) reading "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until [mm-dd-yy]. Employment Authorized."
- Eligible without guideline restrictions.

4.1.3 - NON-PERMANENT RESIDENT ALIEN

An individual admitted to the United States as a lawful temporary resident. Lawful non-permanent residents are legally accorded the privilege of residing temporarily in the United States. Listed below are some common VISA categories allowing temporary residency. In addition to the VISA, most individuals will need an Employment Authorization Document (Form I-765) as evidence they are authorized to work in the United States.

- Legal Status Documentation
  - Visa types allowed: E-1, E-2, E-3, EB-5, G-1 through G-5, H-1B, L-1, NATO, O-1, R-1, TN NAFTA.
  - Visa must be current. If the visa will expire within six (6) months following the close date, additional documentation is required: evidence that the proper extension steps have been followed per the U.S. Citizenship and Immigration Services (USCIS) website, along with proof of payment receipt and proof that the extension was done in the timeframe required by USCIS.
  - Employment Authorization Documents
    - When applicable, a valid Employment Authorization Document (EAD) is required for US employment if borrower is not sponsored by a current employer. If the EAD will expire within six (6) months of loan application, it is acceptable to obtain a letter from the employer documenting the borrower's continued employment and continued EAD renewal. The employer on the loan application must be the same as on the unexpired EAD. The EAD documentation is acceptable up to 540 days if an automatic extension has been granted. If the borrower filed a Form I-765 renewal application on or after May 4, 2022, USCIS will send them a Form I-797C Notice of Action receipt notice that has information regarding the up to 540-day automatic extension. If the borrower is eligible for the automatic extension, this receipt notice, together with the expired EAD (and the borrower's unexpired Form I-94, if the borrower is an H-4, E, or L-2 dependent spouse, including E-1S, E-2S, E-3S and L-2S class of admission codes) will serve as acceptable proof of employment authorization and/or EAD validity during the up to 540-day automatic extension period. See the related USCIS link for further information: https://www.uscis.gov/eadautoextend
- Guideline restrictions:
  - Full or Expanded Documentation limited to 24 months only. Maximum LTV/CLTV limited to 80%
  - DSCR Documentation (Investment Only): Maximum LTV/CLTV 70%
  - Non-occupant co-borrowers are not allowed.
  - Gift funds are not allowed.
  - US credit requirements detailed under the Credit of this guide should be used.

4.1.4 - DEFERRED ACTION FOR CHILDHOOD ARRIVALS

Deferred Action for Childhood Arrivals (DACA) - On June 15, 2012, the Secretary of Homeland Security announced that certain people who came to the United States as children and meet several guidelines may request consideration of deferred action for a period of 2 years, subject to renewal. They are also eligible to request work authorization. Deferred action is an exercise of prosecutorial discretion to defer removal action against an individual for a certain period of time. Deferred action does not provide lawful status. Individuals who can provide documentation of current DACA status along with work authorization are eligible for financing under the same criteria as a non-permanent resident. The individual is required to have a valid Social Security number along with a 2-year U.S. credit and employment history. Some forms of documentation may include the following:

- Consideration of Deferred Action for Childhood Arrivals – Form I-821D
- Application for Employment Authorization – Form I-765
- Worksheet – Form I-765WS

4.1.5 - FOREIGN NATIONAL

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

Refer to Foreign Nationals matrix for restriction.

Foreign Nationals are eligible under the following matrices:

- Foreign National (Investment properties)
- DSCR 5-8 unit or 2-8 unit mixed-use properties

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

4.1.6 - FOREIGN RESIDENCY

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

- A complete loan application (Form 1003) is required on all loan files reflecting the borrowers address for their primary residence in their country of origin.

- The application must include the borrower's full legal name, phone number, address including flat, floor, unit or house number, street name, city, province/state along with a postal code.
- Borrower to provide a third-party document with an address that matches the primary residence on the application e.g., lease agreement, utility bill, financial statement.
- The Borrower Contact Consent Form is required.

4.1.7 - AUTOMATIC PAYMENT AUTHORIZATION (ACH)

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

4.1.8 - FOREIGN NATIONAL PROGRAM SPECIFIC DOCUMENTATION REQUIREMENTS

- The following are required as evidence the borrower is in the U.S legally:
  - Copy of the borrowers valid and unexpired passport (including photograph) and
    - Copy of the borrower's valid and unexpired visa (including photograph) OR an I-797 form with valid extension dates and I-94, or
    - Borrowers from countries participating in the State Department's Visa Waiver Program (VWP) are not required to provide a valid visa. Participating countries can be found at https://travel.state.gov/content/travel/en/us-visas/tourism-visit/visa-waiver-program.html The credit file should be documented with a current print-out of the participating countries, with the borrowers country of origin highlighted.
    - Citizens of Canada traveling to the United States do not require a nonimmigrant visa.
- A list of nonimmigrant Visa types is located on the U.S. Department of State web site https://travel.state.gov/content/travel/en/us-visas/visa-information-resources/all-visa-categories.html
- If a non-U.S. citizen is borrowing with a U.S. citizen, foreign national documentation requirements still apply.
- All parties (borrowers and property sellers) involved on the transaction must be screened through exclusionary lists, and must be cleared through OFAC's SDN list. A search of Specially Designated Nationals & Blocked Persons list may be completed via the US Department of Treasury: http://sdnsearch.ofac.treas.gov/.
- Borrowers from OFAC sanctioned countries are ineligible http://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx.

- Individuals with Diplomatic immunity are not eligible, immunity status is listed on the reverse side of the U.S. issued ID card or at: https://2009-2017.state.gov/s/cpr/rls/dpl//index.htm
- Documents signed by Borrowers outside of the United States must be notarized by a U.S. embassy or consular official. The certificate of acknowledgment must meet the standard notarial requirements and must include the embassy or consular seal. If the U.S. embassy or consular official is unavailable, a notary is acceptable if the country, where signing is taking place, is part of the Hague Convention and the signed documents are accompanied by an Apostille. See the following link to determine if the country is part of the Hague Convention:

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

  Model Apostille forms can be found on the following link:

  https://www.hcch.net/en/instruments/specialised-sections/apostille
- Power of Attorney (POA) is not allowed.

4.1.9 - QUALIFYING U.S. CREDIT

- For foreign national borrowers with a valid Social Security number, a credit report should be obtained. Requirements found in the Credit section of this guide apply.
- Restrictions when qualifying with U.S. credit:
  - Minimum Credit Score: 680
  - Investment property only
  - Non-Occupant Co-Borrowers are not allowed.

4.1.10 - QUALIFYING FOREIGN CREDIT

- Foreign national borrowers without qualifying U.S. credit (Including borrowers without a valid Social Security number and borrowers with or without an Individual Tax Identification Number) must provide evidence of two (2) open tradelines reporting for two (2) years with activity in the most recent 12 months. No derogatory credit history is permitted within the 2-year history under review. ANY combination of the following is acceptable to arrive at the tradeline requirement:
  - Tradelines evidenced via a U.S. credit report; AND/OR
  - Alternative Tradelines consisting of two of the following:
    - Credit Reference letter(s) from a verified financial institutions in the borrower's country of origin

        - A reference letter must be from an internationally known financial institution.
        - Each letter of reference must state the type and length of the relationship, how the account is held, payment amount, outstanding balance and status of account including a minimum 12-month payment history.
        - A single reference source may provide verification of multiple accounts. Individual account detail must be provided.
        - The letter must mention the borrower by name.
        - Name, title & contact information of the person signing the letter must be included.
        - Currency must be converted to U.S. Dollars and signed and dated by certified translator.
        - All documents must be translated into English.
    - Credit Card Statements – minimum of twelve (12) recent credit card statements reflecting a timely payment history.

- Guideline restrictions: Qualifying Foreign Credit
    - Maximum LTV/CLTV: 75%
    - DSCR (Investment property only)

4.1.11 - HOUSING HISTORY

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

4.1.12 - FOREIGN NATIONAL INCOME

- DSCR must comply with all DSCR Documentation guidelines.

4.1.13 - FOREIGN NATIONAL ASSETS RESERVES – 06/30/2023

- Not Eligible.

4.1.14 - GIFT FUNDS – 06/30/2023

Gift funds are not allowed for the following:

- Foreign National.
- First Time Investor.

Gift funds are allowed:

- Gift funds can be counted towards reserves.
- The borrower must have a minimum of 10% of their own funds available for LTV greater than 80%.
- DSCR program, the borrower must have a minimum of 10% contribution.

4.2 - NON-OCCUPANT CO-BORROWERS

- Non-occupant borrowers are credit applicants on a principal residence transaction who do not occupy the subject property.
- When non-occupant income is used, a 5% LTV reduction from the program maximum is required.
- The non-occupant borrower's income is limited to Full Documentation only.
- Borrower(s) and co-borrower(s) must complete and sign a Non-Occupant Co-Borrower Certification similar to the form this example of a Non-Occupant Co-Borrower Certification in this guide.
- Occupying borrower(s) must have a DTI ratio of 60% or less. This excludes the income/debts of non-occupant borrower(s).
- Cash out transactions not allowed.
- The non-occupant co-borrower must be included in the title of the subject property.

4.3 - FIRST-TIME HOME BUYERS - 06/30/2023

An individual is to be considered a first-time home buyer who (1) is purchasing the security property; (2) will reside in the security property as a principal residence or second home; and (3) had no ownership interest (sole or joint) in a residential property during the three-year period preceding the application date of the security property.

If a borrower has not owned a property in the last 3 years but can document ownership in the preceding 5-year period, the previous criteria is waived.

The following requirements apply to first-time homebuyer transactions:

- Primary residence and second home transactions only.

- DTI may not exceed 50%.
- Minimum six (6) months of reserves.
- 12-month rental history is required, reflecting 0x30.
- Individuals living rent free eligible, see additional restrictions in Living Rent Free section.

4.4 - INELIGIBLE BORROWERS

- Irrevocable Trust
- Land Trust
- Blind Trust
- Borrowers with diplomatic immunity or otherwise excluded from US jurisdiction.
- Not-for-profit entity

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

4.5 - TITLE VESTING AND OWNERSHIP

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

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

Eligible forms of vesting are:

- Individuals
- Joint tenants
- Tenants in Common
- Inter vivos revocable trust

Ineligible forms of vesting are:

- Land trusts
- Blind trusts
- IRAs

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

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

The trustee must include either:

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

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

The following documentation is required:

- If the trust was created under California law:
  - A fully executed Certificate of Trust under Section 18100.5 of the California Probate Code or
  - A copy of the Trust Agreement.
- If the trust was created under the laws of a state other than California:
  - Attorney's Opinion Letter from the borrower's attorney or Certificate of Trust verifying all the following:
    - Trust is revocable.
    - The borrower is the settler of the trust and the beneficiary of the trust.
    - The trust assets may be used as collateral for a loan.
    - The trustee is:
      - Duly qualified under applicable law to serve as trustee.
      - The borrower
      - The settler
      - Fully authorized under the trust documents and applicable law to pledge, or otherwise encumber the trust assets.

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

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

- Restricted to investment properties only.
- Purpose and activities are limited to ownership and management of real property.

- Entity must be domiciled in a US State.
- Any business structure is limited to a maximum of four (4) owners or members.
- Personal guaranties (full recourse) must be provided by members representing at least 51% ownership of the entity. A Personal Guaranty form is available on the FlexPoint / BFF website: www.bffws.com.
- Each Entity member providing a personal guaranty (full recourse) must complete a Form 1003 or similar credit application indicating clearly that such document is being provided in the capacity of guarantor. Only the debt appearing on the personal credit report of individual(s) providing a personal guaranty needs to be reflected on the 1003 loan application. The application of each member providing a personal guaranty and their credit score, and creditworthiness will also be used to determine qualification and pricing.
- No FlexPoint Inc Employees shall suggest or encourage the formation of an Entity for the purpose of obtaining a mortgage loan. Such structures shall be initiated and arranged by the members of the Entity.
- The following Entity documentation must be provided:
  - Limited Liability Company
    - Entity Articles of Organization or Partnership
    - Certificate of Good Standing or equivalent
    - Foreign LLC Certificate of Good Standing or equivalent if entity not formed in subject property state
    - Certificate of Authorization for the person executing all documents on behalf of the Entity. The authorization may be determined in an Operating Agreement or other corporate documents. If not, a Borrowing Certificate is required.
      - Borrowing Certificate (LLC Borrowing Certificate - Single Member or LLC Borrowing Certificate - Multiple Member)
    - Corporate documents that contain a list of owners, title, and ownership percentage, e.g., organization structure
    - Tax Identification Number (Employer Identification Number - EIN)
      - Single Member LLC may use EIN or the guarantor social security number
      - All multi-member LLCs must have an EIN
  - Corporation
    - Filed Certificate/Articles of Incorporation (and all amendments)
    - By-Laws (and all amendments)
    - Certificate of Good Standing (Issued by the Secretary of State (SOS) where the Corporation is incorporated)
    - Tax Identification Number (EIN)

- Borrowing Resolution/Corporate Resolution granting authority of signer to enter loan obligation
    - Receipt of current year franchise tax payment or clear search
  - Partnership
    - Filed Partnership Certificate (if a general partnership, filing with the SOS may not be required)
    - Partnership Agreement (and all amendments)
    - Certificate of Good Standing (Issued by the SOS where the partnership is registered)
    - Tax Identification Number (EIN)
    - Limited partner consents (where required by partnership agreement).

Documents must be completed and signed as follows:

- Signed as an individual by all members of the Entity:
  - Loan Application (Fannie Mae® Form 1003)
    - Completed for each individual member of the Entity.
    - Section labelled "Title will be held in what Name(s)" should be completed with ***only*** the LLC name.
    - Signed by Individuals
  - Personal Guaranty
    - Completed for each individual member of the entity.
    - The guaranty should be executed at loan closing and dated the same date as the Note.
    - Personal Guaranties from community property states (AZ, NM, TX) must be accompanied with a Spousal Consent to Pledge. See Spousal Consent Form.
- Signed by the authorized signer for the entity:
  - Disclosures (e.g., GFE, TIL, ECOA)
  - Any state or federally required settlement statement
  - Note, Deed of Trust/Mortgage, and all Riders

4.5.1 - EXAMPLES - SIGNATURE REQUIREMENTS

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

SAMPLE 1:

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

Note, Security Instrument, and 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, by James Johnson and Jane Nelson, two Members of LLC;

Both Members are Authorized Signatories of LLC.

Note, Security Instrument, and 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]

4.5.2 - POWER OF ATTORNEY

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

- It is specific to the transaction;
- It is recorded with the Mortgage/Deed of Trust;
- It contains an expiration date;

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

4.6 - OCCUPANCY TYPES

- Primary Residence – A primary residence is a property that the borrower occupies as his or her principal residence. May also be referred to as owner-occupied.
- Second Home – A second home is a property occupied by the borrower for some portion of the year. The following criteria applies:
  - Restricted to one-unit dwellings
  - Must be suitable for year-round occupancy
  - The borrower must have exclusive control over the property. Cannot be subject to any agreements giving control over occupancy to a management firm, rental pools, or timeshare arrangement.
- Investment Property – An investment property is owned but not occupied by the borrower.

4.7 - BORROWER STATEMENT OF OCCUPANCY

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

4.8 - BORROWER STATEMENT OF BUSINESS PURPOSE (INVESTMENT PROPERTY)

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

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

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

SECTION 5 - TRANSACTION TYPES

5.1 - ELIGIBLE TRANSACTIONS

5.1.1 - PURCHASE

- Proceeds from the transaction are used to finance the acquisition of the subject property.
- LTV/CLTV is based upon the lesser of the sales price or appraised value.
- Assignment of contract or finder's fees reflected on the purchase contract are not eligible to be included in the sales contract price or associated with the LTV/CLTV calculation.
- Ensure the transaction is compliant with the Higher Priced Mortgage Loan appraisal rule. See "Property Flipping" for details.
- The loan file must include a fully executed agreement (purchase contract) of sale and counteroffer (if applicable) reflecting the following:
  - The purchase contract cannot be expired
  - Borrower as the purchaser of the property
  - Seller as the vested owner on title
  - Correct sales price
  - Amount of down payment
  - Closing dates
  - Concessions and seller contributions

5.1.2 - 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.
- Pay off any subordinate loan not used in the acquisition of the subject property, provided one of the following apply:
  - Closed-end loan, at least 12 months of seasoning has occurred.
  - HELOC, at least 12 months of seasoning has occurred, and total draws over the past 12 months are less than $2,000. (For business purpose transactions, any draw over the life of the loan may not have been used for personal use. Business purpose transactions will require a draw history schedule, along with an attestation from the borrower, in the credit file, that none of the advances were used for personal/consumer use).
- Buy out a co-owner pursuant to an agreement.

- Pay off an installment land contract executed more than 12 months from the loan application date.

Other considerations:

- Cash back in an amount not to exceed the lesser of 2% of the new loan amount or $5,000 can be included in the transaction.
- If the subject property was acquired greater than six (6) months from application date, the appraised value will be used to determine LTV/CLTV. If the property was acquired less than or equal to six (6) months from the application date, the lesser of the current appraisal value or previous purchase price plus documented improvements (if any) will be used to determine LTV/CLTV. The purchase settlement statement and any invoices for materials/labor will be required.
- Refinance of a previous loan that provided cash out, as measured from the previous note date to the application date, and is seasoned less than 12 months, will be considered a cash out refinance.

5.1.3 - CASH-OUT

- A refinance that does not meet the definition of a rate/term transaction is considered cash-out.
- See Loan/LTV Matrices for maximum cash-out amounts and restrictions.
- A mortgage secured by a property currently owned free and clear is considered cash-out.
- The payoff of delinquent real estate taxes (60 days or more past due) is considered cash-out.
- If the cash-out is for personal, family, or household use, the loan must also meet all applicable federal and state requirements of a consumer loan transaction even if the borrower is a company or the loan was initially intended for business purposes, including but not limited to the requirements of the Truth in Lending Act (15 U.S.C. § 1601 et seq.), Real Estate Settlement Procedures Act (12 U.S.C. § 2601 et seq.), Gramm-Leach Bliley Act (15 U.S.C. §§ 6802-6809), Secure and Fair Enforcement Mortgage Licensing Act (12 U.S.C. § 5601 et seq.) and Homeowners Protection Act (12 U.S.C. § 4901 et seq.).
- Cash-out eligible to satisfy the reserve requirements.
- Loans not eligible for cash-out:
    - Primary Residence or Second Home properties listed for sale in the past six (6) months.

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

- Cash-Out Seasoning is defined as the time difference between application date of the new loan and the property acquisition date.
  - A minimum borrower seasoning requirement of six (6) months is required for a transaction to be eligible for cash-out.
  - For properties owned 12 months or longer, the LTV/CLV is based upon the appraised value.
  - If the cash-out seasoning is less than 12 months, but greater than 6 months, the transaction property value is limited to the lower of the current appraised value or the property's purchase price plus documented improvements.
  - Cash-out seasoning of six (6) months or less is allowed with the following restriction:

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

5.1.4 - DELAYED FINANCING

- Delayed purchase financing is eligible when a property was purchased by a borrower for cash within 180 days of the loan application.
  - The original purchase transaction was an arms-length transaction.
  - The source of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property).
  - The maximum LTV/CLTV ratio for the transaction is based upon the lower of the current appraised value or the property's purchase price plus documented improvements.
  - The preliminary title search or report must confirm that there are no existing liens on the subject property
  - The transaction is considered cash-out, cash-out pricing adjustors apply
  - The new loan amount can be no more than the actual documented amount of the borrower's initial investment subject to the maximum LTV/CLTV for cash-out transactions.

5.2 - LISTING SEASONING

For all cash-out refinances:

- **Primary/Second Home:**
  - Properties previously listed for sale must be seasoned at least six (6) months from the listing contract expiration date to the loan application date.
  - The value will be based on the lesser of the lowest list price or appraised value.
- **Investment Properties:**
  - A listing expiration of less than six (6) months is permitted with a prepayment penalty. If a property is listed for sale, the listing must be cancelled prior to the note date.
  - The value will be based on the lesser of the lowest list price or appraised value.

5.3 - NON-ARM'S LENGTH AND INTERESTED PARTY TRANSACTIONS

5.3.1 - NON-ARM'S LENGTH TRANSACTION

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

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

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

5.3.2 - ELIGIBLE NON-ARM'S LENGTH TRANSACTIONS

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

5.3.3 - NON-ARM'S-LENGTH RESTRICTIONS

- Borrower to provide verification of earnest money deposit.
- Maximum LTV/CLTV of 80%.
- For-Sale-By-Owner (FSBO) transactions must be arm's-length.
- Employer to employee sales or transfers are not allowed (e.g., newly constructed properties).
- Property trades between buyer and Seller are not allowed.
- Commission earned by buyer/borrower cannot be used for down payment, closing costs, or monthly PITIA reserves.

5.4 - INTERESTED PARTY CONTRIBUTIONS (SELLER CONCESSIONS)

Owner Occupied

- Maximum contribution:
  - 6% for LTVs $\leq$ 80%
  - 4% for LTV > 80%

Non-Owner Occupied

- May not exceed 3%

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

Interested party contributions include funds contributed by the property seller, builder, real estate agent/broker, mortgage lender, or their affiliates, or any other party with an interest in the real estate transaction.

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

5.5 - ESCROWS - IMPOUND ACCOUNTS

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

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

- LTV less than 80%
- Minimum decision credit score of 720
- Minimum 12-months of reserves
- Pricing adjustment may apply, see rate sheet.

5.6 - SECONDARY FINANCING

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

5.7 - PREPAYMENT PENALTY - 06/30/2023

Investment Property Only

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

- Six (6) months of interest - The prepayment charge will be equal to six (6) months of interest on the amount of the prepayment that exceeds 20% of the original principal balance. The charge applies to loans that pay off due to sale or refinance, or curtailments that exceed 20% of the original principal balance in a given 12-month time period. (Not eligible under 5-8 unit, or 2-8 mixed use.)
- A fixed percentage of 5% - The prepayment charge will be equal to a fixed percentage and applied to curtailment that exceed 20% of the original principal balance in a given 12-month time period. The charge applies to loans that are paid off due to sale or refinance.

See rate sheet for further detail. The prepayment penalty can be disclosed within the body of the Note or in a separate rider.

The following state restrictions apply:

- Prepayment penalties are not allowed in KS, NM, and OH.
- Prepayment penalties are not allowed on loans vested to individuals in IL and NJ.
- Pennsylvania - Prepayment penalties are not allowed on loan balances less than an adjusted value as determined by the Dept of Banking & Securities. For the calendar year 2023 the base figure amount is $301,022.

CREDIT

SECTION 6 - CREDIT REPORTS

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

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

6.1 - GAP CREDIT REPORTING:

A gap credit or Undisclosed Debt Monitoring report is required no more than 10 days prior to loan closing or any time after closing. Any new debt must be included in determining the DTI ratio. Business purpose DSCR transactions are excluded from this requirement.

6.2 - FRAUD REPORT

Data integrity is crucial to quality loan file delivery and mitigation of fraud risk. All parties to the transaction (Borrowers, Sellers, Brokers, Loan Officers, and Real Estate Agents) must be included in the fraud report performed by an automated fraud and data check vendor solution (i.e., Fraud Guard, CoreLogic, DataVerify, TransUnion TLOxp, LexisNexis: SmartLinx, Instant ID, or other industry recognized fraud and data vendor). A copy of the findings report from the vendor must be provided in the loan file with all “high” alerts, or “red flags” addressed and/or cleared by the underwriter.

Underwriters may clear “high” alerts or “red flags” directly through the vendor solution or with an attestation. The attestation must address each “high” alert, or “red flag” noted in the fraud report. Broker First Funding (BFF) underwriter may request additional documentation to address high fraud risk.

6.3 - CREDIT INQUIRIES

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

6.4 - HOUSING HISTORY

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

6.4.1 - MORTGAGE VERIFICATION

A 12-month mortgage history is required for all financed properties owned by the borrower (with the exception of the DSCR program – See Housing History - DSCR for Housing History requirements).

Current means the borrower has made all mortgage payments up to and including the month prior to the note date. If the credit report does not reflect the current payment history, one of the following additional documents is required:

- A loan payment history from the servicer or third-party verification service,
- A payoff statement (for mortgages being refinanced),
- The latest mortgage account statement from the borrower, or
- A verification of mortgage.

For properties owned free and clear, a property profile report or similar document showing no liens against the property should be included in the credit file. Any balloon notes with an expired maturity date exceeding 30 days requires an extension to avoid being counted as delinquent.

If a borrower's mortgage history is not reported on the credit report, a VOM must be provided. Any VOM completed by a private-party, or any non-institutional underwriter must obtain alternative documentation showing the most recent 6-month history (cancelled checks, mortgage statements including payment history, etc.).

In addition, if the subject transaction is secured by a non-institutional lender, the mortgage payoff statement should be reviewed to determine that no late fees or delinquent interest is included in the payoff amount. For properties owned free and clear, a property profile report or similar document showing no lien against the property should be provided in the credit file.

Rolling late payments are not considered a single event. Each occurrence of a contractual delinquency is considered individually for loan eligibility.

6.4.2 - RENTAL VERIFICATION

A 12-month rental history is required for all Broker First Funding (BFF) programs when the borrower is renting their current primary residence. The following documents are required:

- A verification of rent (VOR)
  - A third-party VOR is required for any file when the borrower is currently renting.
  - Any VOR completed by a private party, or any non-institutional landlord must be supported by alternative documentation showing the most recent 6-month history (cancelled checks, rental statements including payment history, etc.).

6.4.3 - LIVING RENT-FREE - 06/30/2023

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

- DTI may not exceed 50%
- Any available portion of a 12-month housing history must be paid as agreed.
- Borrower(s) who own their primary residence free and clear are not considered living rent-free.
- Borrower(s) who sold a primary residence within the past six (6) months and are currently residing rent-free until subject transaction closes are not considered living rent-free.

6.4.4 - DEPARTURE RESIDENCE

- If the borrower's current principal residence is pending sale but the transaction will not close prior to the subject transaction, the current PITIA and proposed PITIA must be used in qualifying the borrower. The current PITIA may be excluded provided the credit file is documented with the following:
  - The executed sales contract for the current residence, and
  - Confirmation that any financing contingencies have been cleared.
- If the borrower plans to convert their departure residence to a rental property, the current PITIA and proposed PITIA must be used in qualifying the borrower. The current PITIA may be excluded provided the credit file is documented with all the following:
  - Market Rent Analysis, Single Family Comparable Rent Schedule (Fannie Mae® Form 1007)
  - Copy of a current lease
  - Evidence of proof of receipt of damage deposit and first month's rent.

6.5 - CONSUMER CREDIT

6.5.1 - INSTALLMENT DEBT - 06/30/2023

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

Cash out proceeds may be used to pay off or pay down debt to qualify at closing.

Installment loans may be paid down to less than 10 payments.

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

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

6.5.2 - LEASE PAYMENTS

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

6.5.3 - STUDENT LOANS

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

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

6.5.4 - DEFERRED INSTALLMENT DEBT

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

6.5.5 - REVOLVING DEBT

Revolving debt is open-ended debt in which the principal balance may vary from month to month. The minimum required payment, as stated on the credit report or current account statement, should be used to calculate the debt-to-income ratio. If no payment is stated on the credit report, the greater of $10 or 5% of the current balance should be included in the DTI ratio calculation.

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

Revolving accounts can be paid off prior to or at closing in order to exclude the payment from the debt ratio. Supporting documentation, such as a credit supplement or direct verification from the creditor, must be obtained as evidence the debt has been paid in full.

Any non-mortgage account can be no more than 30 days delinquent at time of application. 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.

6.5.6 - OPEN 30-DAY CHARGE ACCOUNTS

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

6.5.7 - TIMESHARES

Timeshare obligations will be treated as a consumer installment loan.

6.5.8 - BUSINESS DEBT

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

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

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

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

6.5.9 - CONTINGENT LIABILITY ON COSIGNED OBLIGATIONS (DEBT PAID BY OTHERS)

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

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

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

6.5.10 - LOANS SECURED BY FINANCIAL ASSETS - 06/30/23

When a borrower uses his or her financial assets – life insurance policies, 401(k) accounts, individual retirement account, certificates of deposit, stocks, bonds, etc. as security for a loan, the borrower has contingent liability.

The underwriter is not required to include this contingent liability as part of the borrower's recurring monthly debt obligations provided the underwriter obtains a copy of the applicable loan instrument that shows the borrower's financial asset as collateral for the loan. If the borrower intends to use the same asset to satisfy financial reserve requirements, the underwriter must reduce the value of the asset (the account balance, in most cases) by the proceeds from the secured loan and any related fees to determine whether the borrower has sufficient reserves.

Payment on any debt secured by virtual currency is not allowed.

6.5.11 - CONSUMER CREDIT CHARGE-OFFS AND COLLECTIONS

Delinquent credit, such as charge-offs of non-mortgage accounts and collections, have the potential to affect loan position or diminish borrower equity.

- Individual collection and non-mortgage charge-off accounts equal to or greater than $250, and accounts that total more than $2,000, must be paid in full prior to or at closing. See below for exception.
- Medical collections may remain open with a max cumulative balance of $10,000.
- A second mortgage or junior lien that has been charged off is subject to foreclosure seasoning periods for grade determination, based on the charge-off date.
- Collections and charge-offs that have expired under the state statute of limitations on debts may be excluded from the DTI calculation. Evidence of expiration must be documented.
- For DSCR transactions, charge-offs and collections can be ignored unless title impacted.

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 a payment amount is not known, 5% of the balance may be used as the payment.
- Reserves are sufficient to cover the balance of the charge-offs or collections and meet reserve requirements.

6.5.12 - CONSUMER CREDIT COUNSELING SERVICES

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

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

6.5.13 - JUDGMENT OR LIENS

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

6.5.14 - INCOME TAX LIENS

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

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

6.5.15 - DISPUTED ACCOUNTS

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

6.6 - BANKRUPTCY HISTORY

Recent bankruptcies are not allowed. All bankruptcies must be settled a minimum of twelve (12) months. Specific programs may have longer periods, see Product Matrices for details. Evidence of bankruptcy resolution is required. The length of time is measured from the discharge/dismissal date to the Note date.

6.7 - FORECLOSURE SEASONING

Foreclosures must be completed for a minimum of twelve (12) months. Specific programs may have longer periods, see Product Matrices for details. The length of time is measured from the settlement date to the Note date. In the case of a foreclosure which was included in a bankruptcy, the seasoning timeline will start from the earlier of the date of discharge of bankruptcy and the foreclosure completion date.

6.8 - SHORT SALE / DEED-IN-LIEU SEASONING

Short Sales and Deeds-in-Lieu of Foreclosures must be completed a minimum of twelve (12) months. Specific programs may have longer periods, see Product Matrices for details.

In the case of a short sale/deed-in-lieu which was included in a bankruptcy, the seasoning timeline will start from the earlier of the date of discharge of bankruptcy and the short sale/deed-in-lieu completion date.

6.9 - FORBEARANCE, MODIFICATION, OR DEFERRALS (06/01/2023)

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

- **Greater than 12 Months from Note Date:** Forbearance, loan modification, or deferrals (including COVID-19related events) completed or reinstated greater than 12 months from the Note date of the subject transaction and having a 0x30x12 Housing History are allowed under all programs.
- **Within 12 Months of Note Date:**
    - Forbearance, loan modification, or deferrals (including COVID-19 related events) completed or reinstated within 12 months of the Note date of the subject transaction will be treated as a 0x90x12 under Full Doc and Expanded Doc Housing History for eligibility and pricing.
    - Forbearance, loan modification, or deferrals (including COVID-19 related events) completed or reinstated within 12 months of the Note date of the subject transaction are not eligible under DSCR, 5-8 multi/2-8 mixed use.

6.10 - CREDIT SCORE

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

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

- Full and Expanded Documentation: The borrower with the higher monthly income is considered the primary borrower and their credit score can be used as the Decision Credit Score. When both borrowers are self-employed and jointly own the business, use the lowest score amongst the borrowers as the decision credit score.
- DSCR Documentation Options: Determine a decision credit score for each borrower/guarantor (lower of two or middle of three), use highest decision credit score amongst all borrowers/guarantors to determine loan eligibility.
- Asset Utilization: Use lowest score amongst all borrowers who will be on the loan as the decision credit score.

6.11 - TRADELINES

6.11.1 - STANDARD TRADELINES

Full Doc / Expanded Doc: If the primary borrower has three (3) credit scores, the minimum tradeline requirement is waived. For loans when the primary borrower has less than three credit scores, each borrower must meet the minimum tradeline requirements, unless the co-borrower is the spouse of the borrower. In that case, only one spouse is required to meet the minimum tradeline requirements outlined below.

DSCR: For each borrower who has three (3) credit scores, the minimum tradeline requirement is waived (all borrowers must be evaluated individually). Each borrower with less than three (3) credit scores must meet the minimum tradeline requirements outlined below.

The **minimum tradeline requirements** are as follows:

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

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

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

The following are not acceptable to be counted as tradelines:

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

6.12 - OBLIGATIONS NOT APPEARING ON CREDIT REPORT

6.12.1 - HOUSING AND MORTGAGE-RELATED OBLIGATIONS

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

6.12.2 - CURRENT DEBT OBLIGATIONS, ALIMONY, AND CHILD SUPPORT

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

Obligations that do not appear on the credit report, such as alimony and child support, must be documented through other methods according to Fannie Mae® guidelines.

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

SECTION 7 - ASSETS

THE FOLLOWING APPLY TO ALL TRANSACTIONS UNLESS OTHERWISE STATED.

7.1 - ASSET REQUIREMENTS

Acceptable asset documentation is required to be included in each loan file. The borrower must meet the minimum contribution amount per the program requirements. Assets should be liquid or able to be liquidated without restriction by the borrower. The documentation requirement for all transactions is a single account statement covering a one (1) month period and dated within 90-days of the loan note date.

7.2 - ASSET DOCUMENTATION - 06/30/2023

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

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

- Accounts verified using a third-party vendor participating in the Fannie Mae Day 1 Certainty® process.
- Verification of Deposit completed by the verifying financial institution (Fannie Mae® Form 1006).

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

- Stocks/bonds/mutual funds - 100% of the account(s) value may be considered for assets.
- Vested retirement account (e.g., IRA, 401k, Keogh, 403b) - 70% of the vested balance may be considered for assets.
- Business accounts may be considered for assets. The amount of business assets that may be utilized is limited to the borrower's ownership percentage in the business.
- Cash Value of Life Insurance - 100% of the cash surrender value less any loans may be considered for assets.

The following are not acceptable as asset documentation:

- Non-vested or restricted stock accounts
- Cash-on-hand
- Sweat equity
- Gift or Grant funds which must be repaid
- Down payment assistance programs
- Unsecured loans or cash advances
- Custodial accounts
- Stock options
- Privately held stock.
- Deferred compensation
- 529 plan
- Non-regulated Financial Assets (collectibles, stamps, coins, artwork, etc.)
- Crypto currency
- Assets held in foreign accounts.

7.3 - RESERVES

- The Broker First Funding (BFF) loan program requires minimum reserves as outlined on the Broker First Funding (BFF) Loan\LTV matrices.
- Net proceeds from a cash-out transaction maybe used to meet reserve requirements.

- Reserve requirements are waived for Rate-And-Term Refinance transactions (Applies to loans under Full Doc, Expanded and DSCR secured by a 1–4-unit property) when the transaction results in a reduction to the monthly principal and interest payment of 10% or greater AND housing history is 1x30x12 or better. Waiver not eligible for DTI greater than 50%. For an Interest Only loan, the reduction is based on the amortizing payment used for loan qualification.
- Reserves for a loan with an Interest Only feature are based upon the Interest Only payment amount.
- For Adjustable-Rate Mortgages (ARM), the reserves are based upon the initial PITIA, not the qualifying payment.
- Proceeds from a 1031 Exchange cannot be used to meet reserve requirements.

7.4 - GIFT FUNDS – 06/30/2023

Unless otherwise specified, Gift Funds are acceptable if ONE of the following applies:

1. For Owner-occupied properties a 5% down payment has been made by the borrower from their own funds.
   - 100% Gift Funds are allowed for Full Doc and Bank Statement Expanded Doc loans only, with a maximum LTV of 80%.
2. For Investment properties, a minimum of 10% of the down payment must be made by the borrower from their own funds.
3. Gift of Equity from family members allowed up to 75% LTV/CLTV (Primary only). Subject property mortgage rating is required.

7.4.1 - ELIGIBILE DONORS AND DOCUMENTATION

A gift can be provided by:

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

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

7.4.2 - DOCUMENTATION REQUIREMENTS

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

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

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

- A certification from the donor stating that he or she has lived with the borrower for the past 12 months and will continue to do so in the new residence.
- Documents that demonstrate a history of borrower and donor shared residency. The donor's address must be the same as the borrower's address. Examples include but are not limited to a copy of a driver's license, a bill, or a bank statement.

7.4.3 - VERIFYING DONOR AVAILABILITY OF FUNDS AND TRANSFER OF GIFT FUNDS

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

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

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

- Gift funds may not be used to meet reserve requirements.

SECITON 8 - INCOME

8.1 - INCOME ANALYSIS

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

8.1.1 - EMPLOYMENT/INCOME VERIFICATION

- A minimum two (2) year employment history is required to be documented on the loan application (1003). When the borrower has less than a two-year history of employment, the underwriter should document positive factors to offset the shorter employment history, such as education or training.
- Any gaps in employment that span one or more months must be explained.
- Salary/Wage Earner – income derived from employment at a business. Compensation may be based upon a salary, hourly wage, bonus, commission, or overtime.
- Any borrower with a 25% or greater ownership interest in a business/entity or is paid using IRS form 1099 is considered self-employed.
- The following are common business structures:
  - Sole proprietorship
  - Limit Liability Company (LLC)
  - Partnerships
  - S-Corporation
  - Corporation
- If any borrower is no longer employed in the position disclosed on the Form 1003 at the time the loan is scheduled to fund, BFF will not allow funds to be released.

8.1.2 - EARNINGS TRENDS - 06/30/2023

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

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

8.2 - DEBT-TO-INCOME (DTI) RATIO

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

The DTI ratio consists of two components:

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

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

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

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

8.3 - 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.

The Minimum Residual Income requirements are calculated using the table below; $250 is added for the first dependent and $125 for each additional dependent. A dependent is any person other than the borrower or spouse in the household.

OCCUPANCY	MAXIMUM LTV	MINIMUM RESIDUAL INCOME
Full or Expanded Doc - Primary	90%	$2,500
Full or Expanded Doc - Primary	85%	$1,250
Full or Expanded Doc – 2nd Home	80%	$2,500

8.4 - DOCUMENTATION OPTIONS

Full and Expanded Doc income documentation options are available. In addition to wage/salary income, Standard documentation includes various other types of income. See Other Sources of Income Section for documentation requirements. Income should be calculated and documented according to Broker First Funding (BFF) guidelines. If a specific source of income is not referenced in the Broker First Funding (BFF) Guide, the Fannie Mae® guidelines for that income source may be used. The Underwriter income worksheet should be included as part of the credit file.

8.4.1 - IRS FORM 4506-C

A signed copy of IRS Form 4506-C is required in every Full documentation credit file. See specific income documentation type if transcripts are required.
If the transcript request is returned with a code 10, or the borrower is a victim of taxpayer identification theft, the following must be provided to validate income:

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

8.4.2 - TAXPAYER FIRST ACT

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

Therefore, if the broker obtains tax return information during the origination of a mortgage loan, the broker must obtain express consent from the taxpayer to be able to share the tax information with another party. Such sharing would extend to actual or potential owners of the loan, such as Broker First Funding (BFF) or any other loan participant.

To ensure compliance with the law, the Taxpayer Consent Form has been created. To comply, the broker must include either the Broker First Funding (BFF) version or their own version of the document in all loan files that include tax returns.

8.5 - FULL DOCUMENTATION

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

8.5.1 - FULL DOCUMENTATION (24 OR 12 MONTHS)

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

8.5.2 - WAGE/SALARY INCOME

Wage/salary borrowers:

- The borrower's most recent paystubs reflecting 30 days of pay and YTD earnings, along with IRS W-2 forms or W-2 transcripts covering the most recent one (1) or two (2) years depending upon documentation option selected; or
- Employment documentation provided by a 3rd party – (The Work Number®)
- When tax returns are required, as in the case of investment property ownership, the most recent one (1) or two (2) years of tax returns should be provided. The definition of "most recent" is the last return scheduled to have been filed with the IRS. Any borrower who applied for a tax return extension must provide a copy of the extension in the credit file along with the prior one (1) or two (2) years of tax returns based upon the documentation method selected.

8.5.3 - SELF-EMPLOYMENT INCOME

Self-Employed Borrowers:

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

- The most recent one (1) or two (2) years of tax returns (including evidence of filing). If applicable, both personal and business (including all K-1s and schedules), signed and dated by each borrower.
  - Evidence of filing may include one of the following:
    - IRS Form 8879 e-File Signature Authorization for the provider that prepared the return, or
    - E-mail provided from the software used to prepare the return showing successful submission of the return to the IRS.
    - If evidence of filing is not provided, tax transcripts are required.
- If the borrower pays themselves wage income, a YTD paystub must be included in the file.
- If the tax return date exceeds 90 days from the note date, a YTD Profit and Loss Statement (P&L), signed and dated by the borrower, up to and including the most recent month preceding the loan application date and two (2) business checking account statements for the two (2) most recent months reflected on the P&L. The P&L may be either: prepared by a 3rd party or prepared by the borrower. If a gap exists between the tax return ending date and the start date of the YTD P&L, a gap-year P&L is also required. The qualifying income is determined from the tax returns; the P&L is used to determine the stability of that income. The bank statements for the two (2) most recent months must reflect deposits that support the sales from the P&L and the qualifying income from the prior year(s) tax returns.

8.5.4 - EMPLOYMENT STATUS

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

Wage/salary borrowers:

- A YTD paystub dated within 30 days of Note date, or
- A verbal VOE dated no more than 10 calendar days prior to Note date. Underwriters may use any type of verification form. The VOE should include the following data:
  - Borrower name
  - Loan ID number
  - Current position
  - Verification that borrower's employment is currently active
  - Employer name/company name
  - Employer contact name and title
  - Name of individual who completed the VOE

  - Business phone number must be independently verified, or
- A verification via e-mail exchange with the borrower's current employer dated no more than 10 calendar days prior to Note date. Due diligence must be conducted to confirm the e-mail address for the employer is accurate. The VOE should include the following data:
  - Work e-mail address of the individual contacted at the employer
  - Borrower name
  - Current position
  - Current employment status

Self-Employed Borrowers:

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

8.5.5 - OTHER SOURCES OF INCOME

8.5.5A - ALIMONY OR CHILD SUPPORT

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

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

8.5.5B - AUTO ALLOWANCE

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

8.5.5C - CAPITAL GAINS

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

- Most recent two (2) years of personal tax returns, including an IRS Form 1040, Schedule D.

- Third-party documentation to evidence that additional assets may be sold to support the qualifying income.
- The third-party documentation must evidence the capital gain income will continue for a minimum of three (3) years.

Capital losses do not have to be considered.

8.5.5D - DISABILITY INCOME – LONG TERM

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

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

8.5.5E - EMPLOYED BY A RELATIVE

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

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

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

8.5.5F - EMPLOYMENT OFFERS OR CONTRACTS

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

8.5.5G - FOREIGN INCOME - 06/30/2023

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

- Signed federal income tax returns or transcripts for the most recent two (2) years that include foreign income.
- Standard documentation requirements based upon the source and type of income.
- Any documents not in English or US currency must be translated.
- Income documentation, stability and continuance requirement are met.
- Income from countries under OFAC sanctions not permissible.

8.5.5H - FOSTER CARE INCOME

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

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

8.5.5I - HOUSING/PARSONAGE INCOME

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

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

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

8.5.5J - INTEREST/DIVIDENDS

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

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

8.5.5K - NON-TAXABLE INCOME

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

8.5.5L - NOTES RECEIVABLE INCOME

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

- Verify that the income can be expected to continue for a minimum of three (3) years from the date of the mortgage application.
- Obtain a copy of the Note to establish the amount and length of payment.
- Document regular receipt of income for the most recent 12 months using either cancelled checks, bank statements, or federal tax returns.
- Payments on a Note executed within the past 12 months, regardless of the duration, may not be used as stable income.

8.5.5M - PENSION, RETIREMENT, ANNUNITY

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

- Pension/Social Security/VA
  - Award letter(s) from the organizations providing the income,
  - Two prior years 1099-R will be acceptable in lieu of award letter,
  - 30-days current proof of receipt
- 401K/Keogh/IRA
  - Account Statement(s) reflecting available balance for withdrawals.
  - Two prior years 1099-R forms,
  - One-month proof of current receipt.
  - Income will be averaged based upon withdrawals over the past 24-months.

8.5.5N - RENTAL INCOME – FULL DOC

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

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

8.5.5O - RESTRICTED STOCK UNITS

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

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

The following documentation is required:

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

8.5.5P - ROYALTY INCOME

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

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

8.5.5Q - TEACHER INCOME

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

8.5.5R - TIP INCOME

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

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

8.5.5S - TRUST INCOME

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

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

8.5.5T - UNEMPLOYMENT BENEFIT INCOME

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

8.5.5U - VA BENEFITS

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

8.5.5V - VARIABLE – OVERTIME/BONUS/COMMISSION

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

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

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

8.5.5W - INELIGIBLE INCOME SOURCES

- Boarder Income
- Education benefit
- Mortgage Credit Certificates
- Mortgage Differential Payments
- Refunds of federal, state, or local taxes
- Gambling winnings
- Cannabis (see below)

Guidelines for income derived from cannabis:

- Self-employed income (active or passive), derived from a company involved in cultivation, transportation, retailing, etc. is <u>not</u> allowed regardless of percentage of company ownership.
- Income from borrowers who are wage earners in the industry are allowed.

8.6 - EXPANDED DOCUMENT - BANK STATEMENTS

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

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

8.6.1 - RESTRICTIONS

8.6.1A - APPLIES TO PERSONAL/BUSINESS BANK STATEMENTS AND P&L METHODS - 06/30/2023

- See the Broker First Funding (BFF) Matrices for maximum LTV and DTI.
- Borrowers must be self-employed for at least two (2) years. Employment section of the URLA must be completed with a minimum of two (2) years self-employment history.
- The business being used to source income must be in existence for a minimum of two (2) years.
- Minimum credit score is 640.
- Nonprofit Entity not eligible
- Funds/Deposits in a IOLTA (Trust) ineligible source
- Tax returns and 4506-C are not required for the bank statement program.
  - Expanded Doc income may be combined with other income sources that are documented as Full Doc but not associated with self-employment, such as wage income from spouse or domestic partner. When wage income is combined with Expanded Doc, a tax return is not required for the borrower with full income documentation.

8.6.2 - EXPANDED DOCUMENTATION – BANK STATEMENT OPTIONS/INCOME ANALYSIS – 06/30/2023

In addition to the factors described in the Income Analysis section of this guide, Broker First Funding (BFF) Underwriters should consider the following:

- Deposits should be reviewed for consistency.
- Deposits from alternative payment processing applications (i.e., Square, Venmo) are eligible.

- Inconsistent or large deposits should be sourced or excluded from the analysis. The definition of an inconsistent or large deposit is any deposit exceeding 50% of the average monthly sales of the business.
- Changes in deposit pattern must be explained.
- Income documented separately, but included as deposits in the statement under review, must be backed out of deposits.

PERSONAL BANK STATEMENT REVIEW

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

Documentation Requirements

- 24 or 12 months of consecutive PERSONAL bank statements, the most recent statement dated within 90-days of the note date.
- Most recent two (2) months of BUSINESS bank statements.
- Verify that the borrower owns 20% of the business by providing one of the following:
  - CPA letter, Tax Preparer letter, operating agreement, or equivalent, reflecting the borrower's ownership percentage.

Calculation Method

- Qualifying income calculated using total deposits from the personal statements, minus any inconsistent or large deposits not justified. Qualifying income based upon the total eligible deposits from the statements reviewed divided by the number of statements. The most recent bank statement must be consistent with the qualifying income.
- If the personal account is jointly owned, and the joint owner is not an owner of the business, deposits that are not readily identifiable as transfers from the business accounts or business deposits must be excluded unless sourced.
- ATM deposits may be included if a consistent pattern of such deposits is present.
- Two (2) months of business bank statements, which must:
  - Evidence activity to support business operations.
  - Reflect transfers to the personal account.

BUSINESS AND CO-MINGLED BANK STATEMENT REVIEW

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

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

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

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

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

- Verify that the borrower has ownership of at least 50% of the business by providing one of the following:
  - CPA letter, Tax Preparer letter, operating agreement, or equivalent; reflecting the borrower's ownership percentage.
- All other owners of the business not party to the loan must provide a signed and dated letter acknowledging the borrower's access to the business account for loan qualification.
- Net income from the analysis of the bank statements is multiplied by the borrower's ownership percentage to determine the borrower's qualifying income.

Standard Expense Ratio – (50%)

Documentation Requirements

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

Income Calculation Method

- Total deposits from all bank statements, less any inconsistent deposit(s), multiplied by 50%, multiplied by ownership percentage, divided by the number of bank statements reviewed.
- Deposits x (.50) x (ownership %) / 24 or 12 = qualifying income
  - Example: $360,000 x .50 = $180,000 x 1.00 = $180,000 / 12 = $15,000

Business Expense Statement Letter

Documentation Requirements

- 24 or 12 months of consecutive business bank statements, the most recent statement dated within 90-days of the note date and;
- An expense statement letter specifying business expenses as a percent of the gross annual sales/revenue, prepared or reviewed and acknowledged by a CPA/accountant, IRS Enrolled Agent, or licensed tax preparer.

Income Calculation Method

- Total expenses are calculated by multiplying the total deposits by the expense factor provided (subject to a minimum total expense percentage of 10%), multiplied by ownership percentage, divided by the number of bank statements.
- Deposits x (expense ratio) x (ownership %) / 24 or 12 = qualifying income.
  - Example: $360,000 x .75 = $270,000 x .50 = $135,000 / 12 = $11,250

3rd Party prepared P&L Statement

Documentation Requirements

- 24 or 12 months of consecutive business bank statements, the most recent statement dated within 90-days of the note date and;
- P&L covering 24 or 12 months (determined by the months of bank statements provided), prepared or reviewed and acknowledged by a CPA/accountant, IRS Enrolled Agent, or licensed tax preparer. Documentation is required to evidence the preparer's business.

Income Calculation Method

- P&L Sales/Revenue must be supported by the provided bank statements. Total deposits reflected on the bank statements, minus any inconsistent deposits, must be greater than or no more than 20% below the sales/revenue reflected on the P&L. The bank statements and P&L must cover the same time period. If the deposits support the sales, qualifying income is the lower of:
  - The Net Income indicated on the P&L divided by the number of statements (24 or 12), or
  - Total deposits reported on the bank statements, minus any inconsistent deposits, divided by the number of statements (24 or 12).

8.6.3 - NON-SUFFICIENT FUNDS

Non-sufficient funds (NSF) or negative balances reflected on the bank statement must be considered. Overdraft protection fees associated with a 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: Occurrences may be excluded if statements for the linked account confirm that (a) the linked account balance at the time of the transfer exceeded the amount of the overdraft transfer, (b) the linked account's balance did not report as zero or negative at any point during the statement period of the transfer, and (c) the linked account did not itself receive overdraft protection proceeds during the statement period of the transfer.
- Overdraft protection from a line of credit: Occurrences may be excluded if statements for the linked account confirm that (a) the line's credit limit was not exceeded during the statement period of the transfer, and (b) a payment amount which equals or exceeds the sum of all overdraft protection occurrences analyzed in the statement period is made within 30 days after the statement close date.
- Occurrences included in the analysis are subject to the following tolerances:
- An occurence is defined as one or more checks returned the same day.
- If there are one (1) or more occurrences in the most recent two-month time period, up to three (3) occurrences are allowed in the most recent 12-month time period.
- If there are zero (0) occurrences in the most recent three-month time period, up to five (5) occurrences in the most recent 12-month time period are acceptable.
- Exception requests for tolerance deviations must include (a) a letter of explanation from the borrower outlining the reason for the occurrences and an explanation of how and when the issue leading to the occurrences was rectified, and (b) additional compensating factors outlined by the underwriter supporting the viability of income.
- The underwriter must consider the financial strength of a self-employed borrower's business.

8.7 - EXPANDED DOC – RENTAL INCOME (06/30/2023)

Rental income may be included in loan qualification for Expanded Doc income types, to be considered the following documentation must be provided:

- Long Term Rental:
  - A copy of the lease(s) for the rental property.
  - Must provide two (2) months of proof of the receipt of rental income. The deposits must be to a separate bank account. Any deposits in the business bank statements used in the business income analysis are not eligible.

        - 75% of the verified monthly rental income can be used to offset the PITIA of the rental property.
        - If the deposits cannot be validated in a separte account, the full PITIA of the rental unit must be included in the qualifying DTI ratio.
    - Proposed rental income from the comparable rent schedule, reflecting long term rental rates, may be used for qualifying if there is not a current lease or assignment of lease on purchase of investment property.
- Short Term Rental:
    - Property leased on a short-term basis utilizing an on-line service such as Airbnb gross monthly rents can be determined by using a 12-month look back period to account for seasonality.
    - Rents for the look back period must be documented with either 12-monthly statements or an annual statement provided by the on-line service. In the event the borrower owns a single rental property, bank statements with deposits clearly identified/sourced as rental income can be substituted. If two or more rental properties owned, statements from an online service must be provided to associate rents received with the specific property.
        - 75% of the verified monthly rental income can be used to offset the PITIA of the rental property.
    - A screen shot of the online listing must show the property(s) activity marketed as a short-term rental
- Application of Rental Income:
    - Primary Residence
        - The monthly qualifying rental income (as defined above) must be added to the borrower's total monthly income. (The income is not netted against the PITIA of the property.)
        - The full amount of the mortgage payment (PITIA) must be included in the borrower's total monthly obligations when calculating the debt-to-income ratio.
    - Investment Property
        - If the monthly qualifying rental income (as defined above) minus the full PITIA is positive, it must be added to the borrower's total monthly income.
        - If the monthly qualifying rental income minus PITIA is negative, the monthly net rental loss must be added to the borrower's total monthly obligations.
        - The full PITIA for the rental property is factored into the amount of the net rental income (or loss); therefore, it should not be counted as a monthly obligation.

- The full monthly payment for the borrower's principal residence (full PITIA or monthly rent) must be counted as a monthly obligation.

8.8 - EXPANDED DOC – CPA/EA PROFIT & LOSS STATEMENT ONLY - 06/30/2023

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

24 or 12-Month CPA, EA, or CTEC compiled P&L Statement

- A minimum of 25% business ownership required.
- 24 or 12-month (P&L) prepared/compiled and signed by a CPA (proof of CPA current state license required, or EA (proof EA currently active on IRS web site), CTEC (proof CTEC currently active on CTEC web site) dated within 30-days of the loan application, representing total business sales and expenses for the time period covered, and
- The preparer must attest they have prepared the borrower's most recent tax return and provide the borrower's ownership percentage.
- Complete 2 Months recent business bank statement or recent 60 days' worth of business account transaction history to show current deposits and transactions to support P&L and prove business is open and operating.
- Qualifying income is the net income from the P&L divided by the time period covered (24 or 12-months) multiplied by the borrower's ownership percentage.
- The minimum expense factor with CPA letter or P&L is 20%.
    - When a CPA or tax preparer produced statement is provided, apply the stated expense factor to calculate the qualifying income (subject to the minimum expense factors). Provide one of the following items:
        - A CPA/CTEC/EA produced a written statement/letter specifying the actual expense ratio of the business (including cost of goods sold and all other business expenses) based on the most recent year's filed tax returns. Such statement shall not include unacceptable disclaimer or exculpatory language regarding its preparation; or,
        - A CPA/CTEC/EA produced Profit and Loss (P&L) statement that has been reviewed by the CPA/CTEC/EA, the CPA/CTEC/EA states they have reviewed the P&L in writing, and the P&L and accompanying statement do not have unacceptable disclaimer or exculpatory language regarding its preparation.

  - The expense factor per the P&L or CPA/CTEC/EA produced statement must be reasonable. The annual deposits on the bank statements must be at least 75% of the gross receipts per the P&L.
- Expenses on the P&L must be reasonable for the industry, BFF reserves the right to request additional information.
- Tax returns and 4506-C are not required for the P&L Only program.

8.9 - EXPANDED DOC - IRS FORM 1099 - 06/30/2023

Permitted for individual(s) earning 100% commission or for independent contractors.

- 1-year or 2-years of 1099s or 1099 transcript(s) permitted
  - One of the following Business expense analysis methods:
    - 90% Net Margin (10% Expense Factor)
    - 3rd Party prepared P&L (CPA, EA, accountant, tax preparer)
- A minimum 2-year self-employment history is required (e.g., 1099 income).
- Qualifying income is the 12 or 24 monthly average from the total number of 1099's minus the expense factor from the method chosen above
- YTD earnings must be documented when the 1099 reporting period is greater than 90 days from the note date. YTD earnings must support the ongoing receipt of income shown on the 1099s by:
  - Checks or a single check stub(s) with YTD totals if available, or
  - Bank statements (YTD).
    - The YTD earnings from the total of check stubs or the tally of deposits from bank statements must be within 10% or greater than prior year earnings.
- 4506-C is required for 1099 Only program
- The Expanded Doc Loan/LTV matrix should be utilized, see the Product Matrices.

8.10 - EXPANDED DOC – WRITTEN VERIFICATION OF EMPLOYMENT- 06/30/2023

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

- Two years' history with the same employer is required.
- Completed Fannie Mae® Form 1005
- The employment information must be completed by Human Resources, Payroll department or an Officer of the company.
- Employment documentation provided by a 3rd party – (The Work Number ®).

- An internet search of the business is required with documentation to be included in the credit file to support existence of the business.
- Primary Residence Only
- Minimum credit score 660
- 24-month 0x30 housing history required.
- Loan Amount <= $1.5M, Max LTV 80% Purchase or R/T refinance and 75% Cash-Out.
- Loan amount >$1.5M-$3M, Max LTV 70% Purchase or R/T refinance and 65% Cash-Out
- Two months personal bank statement required to support the WVOE. The bank statement must reflect deposits from the employer supporting at least 65% of gross wage/salary reflected on the WVOE.
- First-time Home Buyer maximum LTV 70%, no gift funds allowed.
- Borrowers employed by family members or related individuals are not eligible.
- Paystubs, Tax Returns, W2s or 4506-C are not required.

8.11 - EXPANDED DOC - ASSET UTILIZATION – 06/30/2023

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

8.11.1 – RESTRICTIONS - 07/31/2023

- Minimum 680 credit score
- Loan Amount <= $1.5MM – Maximum LTV 80% Purchase or R/T and 75% Cash-Out.
- Loan Amount >$1.5MM - $3MM – Maximum LTV 70% Purchase or R/T and 65% Cash-Out
- Non-occupant co-borrower not allowed.
- Gift funds not eligible
- Maximum Debt-Income-Ratio 50%

8.11.2 - 70% OF STOCKS ASSET UTILIZATION QUALIFYING METHOD

Debt Ratio Calculation: Minimum Eligible Assets required is the lower of $1,000,000 or 150% of the loan balance. Qualifying income based upon Total Assets Eligible for Depletion, less down payment, less out of pocket closing costs, less required reserves, divided by 60. Maximum DTI 43%.

8.11.3 - ASSET UTILIZATION INCOME DOCUMENTATION

- All individuals listed on the asset account(s) must be on the Note and Mortgage;
- Assets considered for this program must be verified with most recent three (3) monthly account statements, quarterly statement, or a VOD;
- Assets must be seasoned 120-days;
- Income other than Asset Utilization must be documented in accordance with the Full Document program.

8.11.4 - ASSETS ELIGIBLE FOR DEPLETION

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

- 100% of Checking, Savings, and Money Market Accounts;
- 70% of Stocks, Bonds, and Mutual Funds;
- 70% of Retirement Assets: Eligible if the borrower is of retirement age (at least 59 ½);
- 60% of Retirement Assets: Eligible if the borrower is not of retirement age.

Eligible trust assets include:

- Assets held in a revocable trust where the trustee to the trust is the borrower.
- Assets in an irrevocable trust where the borrower is the beneficiary and the borrower has immediate access to the assets of the trust.
- Based upon the asset held in the trust, the above asset percentages apply.

8.11.5 - ASSETS INELIGIBLE FOR DEPLETION – 06/30/2023

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

8.12 - DEBT SERVICE COVERAGE (INVESTMENT PROPERTY)

Debt Service Coverage Ratio transactions are available to experienced investors purchasing or borrowers refinancing investment properties for business purposes. The typical borrower is expected to have a history of managing income-producing rental properties or has a significant equity down payment in a purchase transaction. The borrower is required to execute a Borrower Certification of Business Purpose and an Occupancy Certification. For examples of these forms, see the following links: Borrower Certification of Business Purpose / Occupancy Certification.

DSCR transactions are considered business purpose loans and monthly cash flow is used to determine a DSCR ratio. A DSCR ratio greater than 1.00 reflects a positive monthly cash flow and a DSCR ratio less than 1.00 reflects a negative monthly cash flow but is typically offset by the value of the property securing the loan.

8.13 - 1-4 FAMILY RESIDENTIAL PROPERTY

8.13.1 - PROPERTY INCOME ANALYSIS

Gross monthly rents are used to determine the DSCR from either Fannie Mae® Form 1007 or Freddie Mac Form 1025 Comparable Rent Schedule survey prepared by the appraiser is required on all DSCR transactions. See the appropriate Long Term or Short-Term requirements below for rental income documentation and DSCR calculation.

8.13.2 - LONG TERM RENTAL DOCUMENTATION AND DSCR CALCULATION

- Purchase Transactions
  - Monthly Gross Rents are the monthly rents established on FNMA Form 1007 or FHLMC 1025 reflecting long term market rents.
  - If the subject property is currently tenant occupied, the 1007 or 1025 must reflect the current monthly rent.
  - Vacant or unleased properties are allowed without LTV restriction.
- Refinance Transactions
  - Required Documentation:
    - FNMA Form 1007 or FHLMC 1025 reflecting long-term market rents, and lease agreement.
    - If the lease has been converted month-to-month, then provide most recent two months proof of receipt to evidence continuance of lease.
  - Monthly Gross Rents are determined by the higher of actual lease amount or market rent from 1007/1025. If using a higher monthly actual lease amount, evidence of 2-months of receipt is required, and the lease amount must be within 120% of the estimated market rent from the 1007 or 1025.

    - A vacant or unleased properties are allowed, and the maximum LTV allowed is reduced by 5%.
- DSCR Calculation
    - Debt Service Coverage Ratio is the Monthly Gross Rents divided by the PITIA of the subject property. See the BFF Eligibility Matrix for required Debt Service Coverage Ratios.
    - Gross rents divided by PITIA = DSCR

8.13.3 - SHORT TERM RENTAL (E.G., AIRBNB, VRBO, FLIPKEY) DOCUMENTATION AND DSCR CALCULATION

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

- Short Term Rental Income – Purchase and Refinance Transactions
    - A 5% LTV reduction applies to all transactions using short term rental income when the DSCR is >= 1.00. (Excludes Condo Hotel projects). When the DSCR is < 1.00, the sub-1.00 DSCR Eligibility Matrix must be used.
    - DSCR calculation:
        - Monthly gross rents based upon a 12-month average to account for seasonality required.
        - Gross rents reduced by 20% to reflect extraordinary costs (i.e., advertising, furnishings, cleaning) associated with operating short-term rental property compared to non-short-term property.
        - (Gross Rents * .80) divided by PITIA = DSCR.
- Any of the following methods may be used to determine gross monthly rental income:
    - A 1007 or 1025 Comparable Rent Schedule survey prepared by the appraiser reflecting long-term or short-term market rents.
    - The most recent 12-month rental history statement from the 3rd party rental/management service.
        - The statement must identify the subject property/unit, rents collected for the previous 12 months, and all vendor management fees. The rental income will exclude all vendor or management fees.
    - The most recent 12-month bank statement from the borrower evidencing short term rental deposits. The borrower must provide rental records for the subject property to support monthly deposits.
    - AIRDNA Rentalizer and Overview reports must meet the following requirements:
        - Rentalizer
            - Only allowed for purchase transaction

- Forecast Period must cover 12 months from the Note date
- The occupancy rate must be > 60%
- Must have six (5) comparison 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 greater
  - Income calculation
    - Annual revenue / 12

8.13.4 - DEBT SERVICE COVERGE RATIO (DSCR)

Debt Service Coverage Ratio is the Monthly Gross Income divided by the PITIA (or ITIA for interest-only loans) of the subject property. See the Broker First Funding (BFF) Eligibility matrix for required Debt Service Coverage Ratios. See Qualifying Payment section for further guidance regarding Qualifying Payments.

EXAMPLE: SAMPLE DEBT SERVICE COVERAGE RATIO CALCULATION

Single Family Purchase Money Transaction
Monthly PITIA = $650
Estimated Monthly Market Rent (Fannie Mae® Form 1007) = $850
Existing Lease Monthly Rent = Not Available
Use Market Rent of $850 *(Estimated Monthly Market Rent when a lease is not available for a purchase transaction)*.
Gross Rents **($850)** ÷ PITIA **($650)** = **DSCR (1.30)**

8.13.5 - BORROWER EXPERIENCE

8.13.5A - EXPERIENCED INVESTOR

- An experienced investor is an individual borrower having a history of owning and managing commercial or non-owner occupied residential real estate for at least one (1) year in the last three (3) years. For files with more than one borrower, only one borrower must meet the definition.
- Experience can be documented by one of the following:
  - Complete the REO schedule on the 1003 loan application, or
  - Provide a property profile report, or
  - Other 3rd party documentation

8.13.5B - FIRST-TIME INVESTOR

First Time Investors are eligible subject to the following restrictions:

- Minimum credit score: 680
- Maximum LTV: 75%
- No mortgage late payments during the past thirty-six (36) months.
- Minimum of 36-months seasoning from any credit event
- Cash-out transactions not eligible
- First time homebuyers not eligible

8.13.6 - HOUSING HISTORY DSCR

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

Housing History

- Any housing event reported on the credit report for any property owned by the borrower needs to be included in the housing history eligibility.
- For any non-subject property, non-primary mortgages not reporting to the credit bureau, additional housing history is not required.

8.13.7 - RESTRICTIONS

- See the Broker First Funding (BFF) Matrices for the maximum LTV/CLTV.
- The minimum loan amount is $150,000.
- Minimum credit score of 620.
- No rural properties maximum 2-acres.
- Gift funds permitted after a minimum 10% borrower contribution, documented per Asset Documentation section.
- The borrower may not occupy the subject property at any time.
- Cash-out on an investment property where loan proceeds are used for consumer purposes.

8.13.8 - BORROWER APPLICATION

- The borrower information of the loan application (i.e., Fannie Mae Form 1003) should be completed.
- The borrower's contact information must be provided on the loan application (i.e., Fannie Mae Form 1003).
- No proof of borrower income is required.

8.13.9 - DEFAULT EVENT

If a loan payment is delinquent for 60 days, Broker First Funding (BFF) loan servicer will enforce the following provision from the 1-4 Family Rider (Fannie Mae® Form 3170): Paragraph "G" - Assignment of Leases.

8.14 - 5-8 RESIDENTIAL AND 2-8 MIXED USE PROPERTY

8.14.1 - PROPERTY INCOME ANALYSIS

- Minimum DSCR >= 1.00
- DSCR = Eligible monthly rents/PITIA (Loans with an interest only feature may use the ITIA payment)
- Loan amounts >= $2,000,000 require DSCR >= 1.00 and Debt Yield of 9% or greater (Net operating income/Loan amount = 9% or greater)
- Leased - Use lower of Estimated market rent or lease agreement.
- Vacant Unit(s) – Use 75% of market rents. Max: 1 vacancy on 2-3 Unit properties: 2 vacancies on 4+ Units.
- Reduce qualifying rents by any management fee reflected on appraisal report.
- Income from commercial space must not exceed 49% of the total property income.
- Short-term rental use/income not eligible.

8.14.2 - BORROWER EXPERIENCE

- Experienced Investors only, borrower must have a history of owning and managing commercial or non-owner occupied residential real estate for at least 1 year in the last 3 years.
- First-time investors are not eligible.

8.14.3 - OCCUPANCY

- Residential unit(s) not permitted to be occupied by the borrower or the borrower's immediate family.

- Commercial unit(s) may be occupied by the borrower's business.

Eligible Property

- Residential 5 – 8 Units (Max 2-acres)
- Mixed use 2 – 8 Units
    - Commercial usage limited to Retail/Office
        - 2-3 Units: Max 1 commercial Unit
        - 4-5 Units: Max 2 commercial Units
        - 6-8 Units: Max 3 commercial Units
        - Commercial space must not exceed 49% of the total building area.
- Unleased Units
    - Maximum 1-unit on 2-3 unit property
    - Maximum 2-unit on 4+ unit property.

8.14.4 - PROPERTY CONDITION

- No Fair or poor ratings.
- No environmental issues (Storage or use of hazardous material i.e., Dry Cleaners, Laundromat)
- No health or safety issues (As noted by appraiser, i.e., broken windows, stairs)
- No excessive deferred maintenance that could become a health or safety issue for tenants
- No structural deferred maintenance, (i.e., Foundation, roof, electrical, plumbing)

8.14.5 - PREPAYMENT PENALTY

Eligible prepayment penalties limited to a fixed percentage.

- Prepayment Penalties: Required subject to State eligibility restrictions.
    - The prepayment penalty is assessed when:
        - The loan prepays in full during the prepay period.
    - Acceptable structures include the following:
        - 5% fixed up to 5-years

8.14.6 - ELIGIBILITY REQUIREMENTS

- The maximum loan term cannot exceed 30-years.

8.14.7 - ASSETS REQUIREMENTS

For asset documentation requirements, follow DSCR programs. DSCR 1-4 Family Residential guidelines. Gift funds are not allowed for 5-8 Residential and 2-8 Mixed Use properties.

SECTION 9 - PROPERTY ELIGIBILITY

9.1 - APPRAISALS

9.1.1 - APPRAISAL REQUIREMENTS 1-4 UNIT RESIDENTIAL

Broker First Funding (BFF) Underwriter reserves the right to review all valuation reports and determine if the subject property value is supported.

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

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

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

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

- Uniform Residential Appraisal Report - Fannie Mae®/Freddie Mac Forms 1004/70
- Small Residential Income Property Report - Fannie Mae®/Freddie Mac Forms 1025/72

- Individual Condominium Unit Appraisal Report - Fannie Mae®/Freddie Mac Forms 1073/465
- Appraisal Update and/or Completion Report - Fannie Mae®/Freddie Mac Forms 1004D/442
- Single Family Comparable Rent Schedule - Fannie Mae®/Freddie Mac Forms 1007/1000

Brokers must order appraisals through an Appraisal Management Company (AMC) that complies with Appraiser Independence Requirements (AIR).

9.1.2 - APPRAISER LICENSE AND CERTIFICATION

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

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

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

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

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

9.1.3 - APPRAISAL AGE

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

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

- If the appraiser indicates on the Form 1004D that the property value has declined, then the underwriter must request broker to obtain a new appraisal for the property.

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

Broker First Funding (BFF) will not allow: Properties for which the appraisal indicates condition ratings of C5 or C6, or a quality rating of Q6, as determined under the Uniform Appraisal Dataset (UAD) guidelines. Broker First Funding (BFF) will allow if the issue has been corrected prior to loan funding and with proper documentation.

9.1.4 - SECOND APPRAISAL

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

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

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

9.1.5 - APPRAISAL EVALUATION

NEIGHBORHOOD ANALYSIS

- Neighborhood boundaries should be described using the four (4) cardinal directions, streets, waterways, other geographic features, and natural boundaries that define the separation of one neighborhood from another.
- Neighborhood characteristics should be described with types and sizes of structures, architectural styles, current land uses, site sizes, and street patterns or designs.
- Factors that affect value and marketability should be mentioned in as much detail as possible - e.g., proximity of the property to employment and amenities, public transit, employment stability, market history, and environmental considerations.

EXISTING CONSTRUCTION

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

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

SUBJECT SECTION

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

- Offering price(s)
- Offering date(s)
- Data source(s) used
- For example, if the subject property is currently listed for sale and was previously listed eight months ago, the appraiser must report both offerings.

ACTUAL AND EFFECTIVE AGES

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

ACCESSORY UNITS

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

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

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

OUTBUILDINGS

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

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

TRANSFER OF APPRAISAL

A transferred appraisal report is acceptable provided the report meets BFF appraisal requirements for independence.

9.1.6 - APPRAISAL REQUIREMENTS 5-8 RESIDENTIAL AND 2-8 MIXED USED

9.1.6A - 5-8 UNIT RESIDENTIAL PROPERTIES

A full interior inspection with photos is required for all units. The sales comparison approach should be used as the appraised value.

The following appraisal forms are acceptable:

- FHLMC Form 71A, FNMA Form 1050 or similar short form can be used to appraise 5+ residential properties, or
- A narrative report can be utilized and must include the sales approach with repeat sales analysis in value determination.

9.1.6B - 2-8 MIXED USE PROPERTIES

Commercial use limited to retail or office space. Residential or commercial zoning acceptable.

- General Purpose Commercial Forms (i.e., GP Commercial Summary Form available from CoreLogic a la mode)

- A full interior inspection with photos is required for all units.
- Commercial space must not exceed 49% of the total building area.
- The sales comparison approach should be used as the appraised value.

9.1.6C - APPRAISAL ATTACHMENTS REQUIRED (APPLIES TO RESIDENTIAL AND MIXED USE):

- Rent Roll
- Income and Expense Statement
- Photos of subject including exterior/interior and street scene
- Aerial photo
- Sketch or floor plan of typical units
- Map
- Plot plan or survey
- Appraiser qualifications

9.1.6D - PROPERTY CONDITION

- No fair or poor ratings
- No environmental issues (Storage or use of hazardous material i.e., Dry Cleaners, Laundromat)
- No health or safety issues (As noted by appraiser, i.e., broken windows, stairs)
- No excessive deferred maintenance that could become a health or safety issue for tenants
- No structural deferred maintenance, (i.e., Foundation, roof, electrical, plumbing)

9.1.7 - APPRAISAL REVIEW REQUIREMENTS

9.1.7A - APPRAISAL REVIEW PRODUCTS 1-4 RESIDENTIAL PROPERTY

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

For files requiring an appraisal review product, three (3) options are available:

- The appraisal report to Collateral Underwriter® (CU®) or Loan Collateral Advisor® (LCA). An eligible score is 2.5 or less. The file must include a copy of the Submission Summary Report (SSR).
- An enhanced desk review product from one of the following choices:
  - ARR from Pro Teck
  - CDA from Clear Capital

    - ARA from Computershare
- A field review or a second appraisal is acceptable. These may not be from the same appraiser or appraisal company as the original report.

If the CU® or LCA score exceeds 2.5 or the enhanced desk review product (ARR, CDA, or ARA) reflects a value more than 10% below the appraised value or cannot provide a validation, the next option would be either a field review or a second appraisal. These must be from a different appraisal company and appraiser than the original appraisal.

9.1.7B - APPRAISAL REVIEW REQUIREMENTS 5-8 RESIDENTIAL AND 2-8 MIXED USED

- A commercial sales and income Broker Price Opinion (BPO) is required. The appraised value is considered valid if the BPO is greater than or not more than 10% below the value of the appraisal. If the BPO is more than 10% below the appraised value, then the BPO value is used to determine the loan LTV.

9.1.7C - MINIMUM PROPERTY REQUIREMENTS

MINIMUM SQUARE FOOTAGE		
Single Family	Condominium	2-8 Units
700 sq. ft.	500 sq. ft	400 sq. ft per individual unit

All properties must:

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

9.1.7D - PERSONAL PROPERTY

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

9.1.7E - ESCROW HOLDBACKS

Escrow holdbacks are not allowed. Any repair or maintenance required by the appraiser must be completed prior to loan funded.

9.1.7F - DECLINING MARKETS – 06/30/2023

Properties with appraisals that show the "Neighborhood – Housing Trends" marked as Declining may be subject to a 5% reduction in LTV/CLTV. The distinction of a Declining market is determined by the Appraiser. Appraisers are required to pull median house price data over the last 12 months and analyze it to determine the market trends for that area and property type.

When the LTV/CLTV is < 65% and the appraisal is in a declining market, no reduction is required.

9.2 - PROPERTY TYPES

9.2.1 – ELIGIBLE PROPERTIES

- Single Family Detached
- Single Family Attached
- 2-4 Unit residential properties
- 5-8 Unit residential properties (DSCR only)
- 2-8 Mixed Use (DSCR only)
  - 2-3 Units: Max 1 commercial Unit
  - 4-5 Units: Max 2 commercial Units
  - 6-8 Units: Max 3 commercial Units
- Condominium
- Condo hotels
- Non-Warrantable Condo
- Properties of 10 acres or less
- Leaseholds (in areas where leaseholds are common)

9.2.2 – INELIGIBLE PROPERTIES

- Modular homes
- Vacant land or land development properties
- Properties not readily accessible by roads that meet local standards
- Properties not suitable for year-round occupancy, regardless of location
- Agricultural properties (including farms, ranches, or orchards)

- Manufactured or Mobile homes
- Co-op/timeshare hotels
- Projects that include registration services and offer rentals of units on a daily, weekly, or monthly basis
- Cooperative share loans
- Boarding houses or bed/breakfast properties
- Properties with zoning violations
- Dome or geodesic homes
- Assisted living facilities
- Homes on Native American Land (Reservations)
- Log homes
- Hawaii properties located in lava zones 1 and/or 2
- Houseboats
- Fractional ownership
- Properties used for the cultivation, distribution, manufacture, or sale of marijuana
- Rural Property:
    - A property is classified as rural if:
        - The appraiser indicates in the neighborhood section of the report a rural location, or
        - The following two (2) conditions exist:
            - The property is located on a gravel road, and
            - Two of the three comparable properties are more than five (5) miles from the subject property.

9.3 - ACREAGE LIMITATIONS

- A maximum of 10 acres (DSCR transactions limited to 2 acres)
- No truncating allowed.

9.4 - STATE ELIGIBILITY

Arizona, California, Colorado, Florida, Maryland, Nevada, New Mexico, New Jersey, Oklahoma, Oregon, Texas, and Virginia.

9.4.1 - TEXAS HOME EQUITY LOANS 50(A)(6)

A Texas Section 50(a)(6) mortgage is a home equity loan originated under the provisions of Article XVI, Section 50(a)(6), of the Texas Constitution, which allow a borrower to take equity out of a homestead property under certain conditions. All loans must comply with the requirements listed in the Texas Constitution. Brokers should not rely on Broker First Funding (BFF) categorization of refinance loans for purposes of determining whether compliance with the provisions of Texas Constitution Section 50(a)(6) is required. Brokers should consult with their counsel to determine the applicability of Texas Constitution Section 50(a)(6) to a specific transaction.

9.5 - PROPERTY FLIPPING

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

- The price in the borrower's purchase agreement exceeds the property Seller's acquisition price by more than 10% if the property Seller acquired the property 90 or fewer days prior to the date of the borrower's purchase agreement.
- The price in the borrower's purchase agreement exceeds the property Seller's acquisition price by more than 20% if the property Seller acquired the property 91-180 days prior to the date of the borrower's purchase agreement.

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

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

9.6 - LEASEHOLD PROPERTIES

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

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

9.7 - BROKER FIRST FUNDING (BFF) EXPOSURE – BORROWER LIMITATIONS

Broker First Funding (BFF) exposure to a single borrower shall not exceed $5,000,000 in current unpaid principal balance (UPB) or ten (10) loans.

9.8 - DISASTER AREAS

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

9.8.1 - APPRAISALS COMPLETED PRIOR TO DISASTER

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

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

9.8.2 - APPRAISALS COMPLETED AFTER DISASTER EVENT

- The appraiser must comment on the adverse event and certify that there has been no change in the valuation.
- Any existing damage noted in the original report must be repaired and re-inspected prior closing.

9.9 - CONDOMINIUMS

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

To qualify as an acceptable condominium unit, the condominium project must be common for the area and demonstrate good marketability.

- All Loans secured by condominium projects require a completed Homeowners Association (HOA) questionnaire (except for loans secured by site condominiums).
- Any projects with significant deferred maintenance or have received a directive from a regulatory or inspection agency to mark repairs due to unsafe conditions are not eligible for purchase. Significant deferred maintenance includes deficiencies that meet one or more of the following criteria:
  - Full or partial evacuation of the building to complete repairs is required for more than seven days or an unknown period of time
  - The project has deficiencies, defects, substantial damage, or deferred maintenance that
    - is severe enough to affect the safety, soundness, structural integrity, or habitability of the improvements.
    - the improvements need substantial repairs and rehabilitation, including many major components; or
    - impedes the safe and sound functioning of one or more of the building's major structural or mechanical elements, including but not limited to the foundation, roof, load bearing structures, electrical system, HVAC, or plumbing.
- Broker First Funding (BFF) will not allow loans secured by units in any condo project identified by FNMA as "Unavailable" by Condo Project Manager (CPM), with the exception of a condo hotel.
- Florida Condominiums:
  - For loans secured by a condominium unit in the state of Florida, if the project is over 30 years old (or 25 if within 3 miles of the coast), a structural inspection is required per Florida statute 553.899.
  - Projects with an acceptable inspection, maximum LTV is reduced 5%.
  - Projects with an unacceptable or no inspection are not eligible.
- See the current Loan/LTV matrix for maximum LTV/CLTVs and loan amounts.
- Broker First Funding (BFF) project exposure maximum shall be $3,000,000 or 15% of the total units in the project, whichever is lower.
- Projects consisting entirely of detached (site) units will not require a project review and are eligible for single-family dwelling LTV/CLTV. Completion of the Homeowners Association (HOA) questionnaire is not required for site condominiums.
- Two- to four-unit condominium projects will not require a project review provided the following are met:

  - The project is not a condo hotel, houseboat, or timeshare or segmented-ownership project.
  - The priority of common expense assessments applies.
  - The standard insurance requirements apply.
- Project has been created and exists in full compliance with applicable local jurisdiction, State, and all other applicable laws and regulations.
- Commercial space allowed up to 50% of project.
- No more than 20% of the total units in the project may be 60 days or more past due on the condominium/HOA fees.
- Investor concentration allowed up to 60%. A higher percentage may be considered when the subject transaction is an investment property when a history of a high percentage of rental units in the project can be demonstrated.
- The project developer may be in control of the condominium association provided the Master Agreement allows for the homeowners to take control upon either a predetermined percentage of unit sales or within a defined time frame.
- Single entity ownership allowed up to 20% of the project.
- Projects involved in litigation are acceptable provided the lawsuit(s) are not structural in nature which impact the subject unit and do not affect the marketability of the project units and potential damages do not exceed 25% of HOA reserves or documentation from the insurance carrier or attorney representing the insurance carrier that the insurance carrier has agreed to conduct defense and the HOA insurance policy is sufficient to cover the litigation expense.
- Borrower must carry HO-6 coverage for replacement of such items as flooring, wall covering, cabinets, fixtures, built-ins, and any improvements made to the unit.
- The underwriter must confirm that the project documents do not give a unit owner or any other party priority over the rights of the first mortgagee.

9.9.1 - ESTABLISHED PROJECTS

- 90% of the total units in the project must be sold and conveyed to the unit owners.
- 40% of the total units in the project must be owner occupied.
- All phases are complete.
- HOA must be conveyed to the unit owners – no developer or builder-controlled projects allowed.
- All comparable sales may be from within the subject’s project if the project is established and consists of 100 or more units. Recent sales of model match units, if available, must be utilized in the appraisal report.

9.9.2 - NEW PROJECTS

- 50% of the total units in the project or subject's phase must be sold and conveyed to the unit owners AND at least 50% of the units must be owner occupied.
- Project or subject's legal phase along with other development phases must be complete. All common elements in the project or legal phase must be 100% complete.
- Project may be subject to additional phasing.
- HOA should be in control – project under Developer or Builder control will be considered on a case-by-case basis only.

9.9.3 - CONDOTELS

- Condominium Hotel – (a.k.a. Condo Hotel, Condotel)
    - Projects that are managed and operated as a hotel or motel, even though the units are individually owned.
    - A project that includes registration services and offers rentals of units on a daily, weekly, or monthly basis.
    - Occupancy Type: Primary, Second Home, or Investment.
    - Investor concentration, within the subject project, may exceed established project criteria, up to 100%.
    - Maximum LTV/CLTV (may vary by product – see Loan/LTV matrix):
        - Purchase: 75% (65% for Foreign National program)
        - R/T and Cash-Out: 65%
    - Maximum Loan Amount: $1.5 million
    - Minimum Loan Balance: $150,000
    - Gross rents (for all income doc types) reduced by 20% to reflect extraordinary costs (i.e., advertising, furnishings, cleaning) associated with operating short-term rental compared to non-short-term property.
    - Minimum square footage: 500
    - Fully functioning kitchen – define as full-size appliances including a refrigerator and stove/oven
    - Bedroom required.
    - Florida Condominiums:
        - For loans secured by a condominium unit in the state of Florida, if the project is over 30 years old (or 25 if within 3 miles of the coast), a structural inspection is required per Florida statue 533.889.
        - For projects not in compliance with this status, financing is not eligible.
        - For projects meeting compliance, financing is eligible subject to a 5% LTV reduction.

9.9.4 - INELIGIBLE PROJECTS

- A project subject to the rules and regulations of the US Securities and Exchange Commission.
- Timeshare or projects that restrict the owner's ability to occupy the unit.
- Houseboat project.
- Manufactured home projects.
- Assisted living facilities or any project where the unit owner's contract includes a lifetime commitment from the facility to care for the unit owner regardless of future health or housing needs.
- Multi-family units where a single deed conveys ownership of more than one, or all of the units.
- A common-interest apartment
  - A project in which individuals have an undivided interest in a residential apartment building and land and have the right of exclusive occupancy of a specific apartment unit in the building.
  - The project or building is often owned by several owners as tenants-in-common or by a homeowners' association.
- Fragmented or segmented ownership
  - Ownership is limited to a specific period on a recurring basis (i.e., timeshare, quarter share).
- Any project where the developer (or its affiliates) owns the Common and/or Limited Elements and leases the elements back to the HOA.
- Any project that has non-conforming zoning (can't be rebuilt to current density).
- Any project that requires Private Transfer Fees as a part of the transaction, and those fees do not benefit the association.

9.9.5 - NON-WARRANTABLE CONDOS

- At least 30% of the units must be sold or under bona fide contract.
- Single entity ownership allowed up to 30% of the project.
- Maximum LTV/CLTV is 75% for purchases and 65% for refinances.
- 55% of the total units in the project can be tenant occupied
- Slip and fall/single unit complaints/3rd party claims with adequate reserves.
- Budget reserves can be less than 10% and a minimum 5% deductible required.
- Delinquent HOA in excess of Fannie Mae 15% limit is ineligible.
- Newly converted – Non full gut rehab not allowed.

9.9.6 - INELIGIBLE NON-WARRANTABLE CONDOS

- Material Litigation such as structural/functional litigation against developer.
- No more than 15% of the total units in a project maybe 60 days or more past due.
- Newly converted – non-full gut rehabilitation projects.

9.9.7 - CONDOMINIMUM INSURANCE REQUIREMENTS

9.9.7A - COVERAGE

- Borrower must carry H06 coverage for replacement of such items as flooring, wall covering, cabinets, fixtures, built-ins, and any improvements made to the unit.
- Project meets all Fannie Mae insurance requirements for property, liability, and fidelity coverage.

9.9.7B - FIDELITY OF EMPLOYEE DISHONESTY INSURANCE FOR CONDOMINIUMS

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

9.9.7C - HO-6

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

9.9.7D - DEDUCTIBLE

The maximum deductible amount must be no greater than 5% of the face amount of the policy.

9.9.7E - FLOOD INSURANCE

- The condominium homeowners' owners must obtain an NFIP Residential Condominium Building Association Policy (RCBAP) with the following coverage:
  - Building Coverage must equal the lesser of:
    - 100% of the insurable value (replacement cost) of the building, including amounts to repair or replace the foundation and its supporting structure); or
    - The total number of units in the condominium building times $250,000
- Contents Coverage must equal the lesser of:

- 100% of the insurable value of all contents (including machinery and equipment that are not part of the building) that are owned in common by the association members; or
- The maximum amount of contents coverage sold by the NFIP for a condominium building.

CHAPTER 1 - GLOSSARY

TERMS AND DEFINITIONS

TERM	DEFINITION
Adjustable-Rate Mortgage (ARM)	A mortgage loan that permits the lender to periodically adjust the interest rate on the basis of changes in a specified index.
Allonge	An attachment to a legal document that is used to insert language or signatures when there is no space for them on the document itself. Frequently used to add endorsements to the mortgage note.
American Land Title Association (ALTA)	A national association of title insurance companies, abstractors, and title agents. The association speaks for the abstract and title insurance industry and establishes standard procedures and title policy forms.
Application Date	The date on which receipt of the borrower's financial information first triggers the federal Truth in Lending disclosure requirements to the borrower in connection with the mortgage loan.
Appraisal	A report that sets forth an opinion or estimate of value.
Automated Clearing House (ACH)	An electronic drafting system that debits (or credits) an authorized bank account and electronically transfers funds to (or from) another designated account.
Rate Lock	A secondary market rate lock is an agreement between a Borrower and the Lender which allows the Lender to lock in the interest rate on a mortgage loan for a specified time period at the prevailing market interest rate. A mortgage loan lock provides protection against a rise in prevailing interest rates during the lock period.
Borrower	The person to whom credit is extended. On a mortgage loan, the person who has an ownership interest in the security property, signs the security instrument, and signs the mortgage/deed of trust note (if his or her credit is used for qualifying purposes). See also *Co-Borrower*.
Cash-Out Refinance	A refinancing transaction in which the amount of money received from the new loan exceeds the total of the

	money needed to repay the existing first mortgage, closing costs, points, and the amount required to satisfy any outstanding subordinate mortgage liens.
Co-Borrower	For FlexPoint's purposes, this term is used to describe any borrower other than the first borrower whose name appears on the mortgage note, even when that person owns the property jointly with the first borrower (and is jointly and severally liable for the note). See also *Borrower.*
Condominium (condo)	A unit in a condominium project. Each unit owner has title to his or her individual unit, an individual interest in the project's common areas, and, in some cases, the exclusive use of certain limited common areas.
Credit Score	A numerical value that ranks an individual according to his or her credit risk at a given point in time, as derived from a statistical evaluation of information in the individual's credit file that has been proven to be predictive of loan performance. When this term is used by Broker First Funding (BFF), it is referring to the classic FICO score developed by Fair Isaac Corporation.
Custodian (Document Custodian)	A financial institution that maintains custody of certain mortgage documents on behalf of Broker First Funding.

Debt-To-Income Ratio (DTI)	A ratio derived by dividing the borrower's total monthly obligations (including housing expense) by his or her stable monthly income. This calculation is used to determine the mortgage amount for which a borrower qualifies. This term is used interchangeably with "total debt-to-income ratio" and "expense ratio."
Escrow Account	A trust account that is established to hold funds allocated for the payment of a borrower's property taxes and assessments by special assessment districts, ground rents, insurance premiums, condo or homeowners' association or planned unit development association dues and similar expenses as they are received each month in accordance with the borrower's mortgage documents and until such time as they are disbursed to pay the related bills.
Federal Emergency Management Agency (FEMA)	A federal agency that provides assistance in areas that have suffered a major disaster or other emergency. It also maintains flood insurance rate maps that identify the

	Special Flood Hazard Areas in which FlexPoint requires flood insurance.
First-Time Home Buyer	An individual is to be considered a first-time home buyer who (1) is purchasing the security property; (2) will reside in the security property as a principal residence; and (3) had no ownership interest (sole or joint) in a residential property during the three-year period preceding the date of the purchase of the security property. In addition, an individual who is a displaced homemaker or single parent also will be considered a first-time home buyer if he or she had no ownership interest in a principal residence (other than a joint ownership interest with a spouse) during the preceding three-year time period.
Higher-Priced Covered Transaction	A mortgage loan that meets the corresponding definition under Regulation Z of the Truth in Lending Act and applies to both principal residences and second homes.
Higher-Priced Mortgage Loan	A mortgage loan that meets the corresponding definition under Regulation Z of the Truth in Lending Act. Only principal residences are included in this category.
Lease	A written agreement between the property owner and a tenant that stipulates the conditions under which the tenant may possess the real estate for a specified period of time and rent.
Loan-To-Value (LTV) Ratio	The relationship between the original loan amount of the first mortgage and the property's appraised value (or sales price, if it is lower).
Lock Extension Fee	A mortgage lock requires the borrower to either close the mortgage loan by a specific date or incur a fee, called a lock extension fee. Refer to rate sheet for lock extension fee.
Prepayment Penalty	A charge imposed for paying all or part of the transaction's principal before the date on which the principal is due, other than a waived, bona fide third-party charge that the lender imposes if the borrower prepays all of the transaction's principal sooner than 60 months after loan closing.
Sales Contract	A contract for the purchase/sale, exchange, or other conveyance of real estate between parties. The contract must be in writing, contain the full names of the buyer(s) and seller(s), identify the property address or legal description, identify the sales price, and include signatures by the parties. Sales contracts are also known

	as agreements of sale, purchase agreements, or contracts for sale.
Texas Section 50(a)(6) Loan	A loan originated in accordance with and secured by a lien permitted under the provisions of Article XVI, Section 50(a)(6), of the Texas Constitution, which allows a borrower to take equity out of a homestead property under certain conditions. Article XVI, Section 50(a)(6), of the Texas Constitution is sometimes referred to as Texas Constitution Section 50(a)(6).

CHAPTER 2 - FORMS

ALLONGE – SAMPLE

ALLONGE

Loan Number: (as printed on the note) ___________________________

Borrower(s): ____

Property Address: ____

Note/Loan Amount: $_____________________________

Note/Loan Date: _______________

Pay to the order of: ____
without recourse

(Leave blank)

____

Signature: ____

Print Signer's Name: ____

Signer's Title: ____

Broker First Funding (BFF) APPRAISAL REVIEW GUIDE

SUBJECT PROPERTY

1) Does the subject property address match the documentation in the file (loan application, purchase contract, etc.)? If yes, validate the address via the USPS address validator.
2) Is the owner of record consistent with the loan file documentation? If it's a refinance, the borrower should reflect as the owner. If it's a purchase, does the owner match the purchase contract?

CONTRACT

1) Did the appraiser review the sales contract? The appraiser must review the sales contract on all purchase transactions.
2) Does the information in this section agree with the information on the sales contract?

NEIGHBORHOOD AND SITE

1) Pay attention to situations which could adversely affect the subject values, such as rural properties, property values declining, over-supply, marketing time greater than six (6) months. The appraiser may need to comment on the reason(s) and its effect on the subject's value.
2) Is the subject's value within the neighborhood's price range? If no, the appraiser must comment on its effect on the marketability of the subject.
3) Is the present land use predominately residential and similar to the subject's use? Is the present land use stable? If no, the appraiser must comment on these conditions.
4) Is the subject zoned legal non-conforming, or illegal? If legal non-conforming, ensure the property can be rebuilt if destroyed.
5) Are there any negative comments regarding the site? If so, verify that the noted condition will not affect the marketability.
6) Is the subject located on a private road? If so, obtain a maintenance agreement.
7) Be aware of acreage and any possible guideline restrictions.

IMPROVEMENTS

1) Is there evidence of infestation, dampness, settlement in the foundation? If so, the appraiser must comment.

2) Are there any negative comments in the improvements section if the appraisal is not subject to repairs? If yes, the appraiser may need to comment further.
3) Are there any physical deficiencies or adverse conditions that affect the livability, soundness, or structural integrity of the property? If so, is the situation addressed?
4) Pay attention to any improvements/remodeling done in the past 1 - 5 years mentioned by the appraiser. What is their impact on the final value and/or any recent increase to value?

SALES COMPARISON APPROACH

1) Did the appraiser indicate a number of comparable properties currently listed and sold in the neighborhood? If no, request that from the appraiser.
2) Are comparable sales located within the subject's neighborhood based on location (urban, suburban, rural)? If no, ask the appraiser to comment.
3) Are the comparable sales dated within six (6) months? If no, the appraiser must address this.
4) Are the comparable sales similar to the subject in location, design, gross living area, room counts, age, condition, etc.? If not, the appraiser must explain why the comps chosen were used.
5) For condominiums, at least one comparable sale should be outside of the subject's complex.
6) Be aware of total adjustments exceeding 15% for net and 25% for gross adjustments as referenced in the FlexPoint loan eligibility criteria.
7) Make sure that add-ons (garage/barn/pool/etc.) are addressed and any adjustments are not excessive.
8) Watch for ineligible condition(s) such as C5, C6 or Q6.

Complete an independent analysis of the information and documentation provided on the appraisal focusing on the four (4) items below.

1) Review photos of the subject. Does the subject appear to need repairs? If so, and the appraiser did not require repairs, the appraiser must comment on the observed issue and possibly provide the cost to cure.
2) Complete research via online tools such as Zillow, Google, etc., on the comparable sales. Compare exterior and interior photos of the comparable sales to the subject to ensure they are not superior.
3) Review the sales history and listings in the subject's immediate neighborhood with online tools such as Zillow, MLS, etc., to ensure the best sale comparable(s) were used by the appraiser.
4) Review the street map that identifies the subject location and location(s) of the sale comparable(s). Verify that the comps are not clustered together in a superior

neighborhood, separated from the subject by man-made barriers such as major roads/highways, etc.

RECONCILIATION

1) Is the appraisal made "subject to completion, repair, or inspection? If yes, check the condition for the completion/repair/inspection.

COST APPROACH

1) Is the land-to-value ratio typical for the area? If the site value has been provided, ensure the land-to-value ratio is not too high for the subject's neighborhood.
2) Is the indicated value by cost approach in-line with the sales comparison approach? If no, the appraiser must address this.

ADDENDA

1) Are all required addenda attached to the appraisal, including a map, sketch, and photographs?
2) Watch for adverse comments on any of the addenda.
3) Are the correct appraisal form(s) used? For example, condominiums should use Form 1073. A small residential income property appraisal report (Form 1025) should contain a Form 1007 single family comparable rent schedule, etc.

AUTOMATIC PAYMENT AUTHORIZATION FORM

❑ Yes, I would like to enroll in the free* monthly Automatic Payment Program

Name	Street Address		City, State, Zip Code
Daytime Phone Number		Evening Phone Number	
Mortgage Number			
Financial Institution Name	Financial Institution Phone No.		Financial Institution Address
Electronic ACH Routing Number	Account Number		☐ Checking ☐ Savings

Please specify the payment date most convenient for you, which must be within the applicable grace period. **If a payment date is not specified, or your loan is a daily simple interest loan, payments will be deducted on your current loan due date.**

Deduct my payment on the ___________ of each month (select a date within the grace period indicated on your note).

I hereby authorize ______________, including its successors and/or assigns, to initiate transfers from my checking or savings account at the financial institution indicated above for the purpose of making my monthly mortgage payment. I authorize the amount of each transfer to include my regularly scheduled payment including principal, interest, and escrow items I understand that, in accordance with the terms of my mortgage note and/or adjustments in my escrow for taxes and insurance, my payment may change from time to time as set forth in my loan documents. You are hereby authorized to change the amount of the draft from my checking or savings account, provided you notify me of the new payment amount at least 10 days prior to the draft date. I agree that the payment change notice provided to me under the Adjustable-Rate Mortgage Provisions of the Truth-in-Lending Act and/or escrow analysis form shall constitute notice of payment change as required by the Electronic Funds Transfer Act and Federal Reserve Board Regulation E.

The authorization is to remain in full force and effect until revoked in writing. Such revocation notification must be provided to the Initiating party no less than fifteen (15) business days prior to it taking effect. Please contact the Initiating Party immediately if you change financial institutions, change accounts within the same financial institution or if you wish to revoke this authorization.

I HEREBY AGREE TO THE TERMS AND CONDITIONS IN THIS FORM.

Borrower	Date	Co-Borrower	Date

Borrower Certification of Business Purpose

This BORROWER CERTIFICATION OF BUSINESS PURPOSE LOAN is being executed and made effective as of **[LOAN CLOSING DATE]**. The undersigned borrower(s) and, if applicable, guarantor (collectively the "Borrower") certifies and represents to **Broker First Funding (BFF)** ("Lender") all of the following:

1. Borrower has requested that Lender make a loan in the original principal amount of **[LOAN AMOUNT]** ("Loan"), which is evidenced by that certain Promissory Note of even date herewith made in favor and payable to the order of FlexPoint, which is secured by that certain Mortgage, Deed of Trust or Security Deed ("Security Instrument") of even date herewith encumbering all that certain real property referenced in the Security Instrument and commonly known as **[PROPERTY ADDRESS]** ("Property").

2. Borrower has previously represented to FlexPoint that the purpose of the Loan is solely for business or commercial purposes and not for any personal, family, or household purposes.

3. As previously represented, all proceeds from the Loan are to be used solely for business or commercial purposes and not for any personal, family, or household purposes.

4. The Property is not the principal or secondary residence of (i) the Borrower (including, for avoidance of doubt, any guarantors), or (ii) if the Borrower is not a natural person, any person who has a direct or indirect ownership interest in the Borrower.

5. Certain consumer protection laws, including the Truth in Lending Act (15 U.S.C. § 1601 et seq.), Real Estate Settlement Procedures Act (12 U.S.C. § 2601 et seq.), Gramm-Leach Bliley Act (15 U.S.C. §§ 6802-6809), Secure and Fair Enforcement Mortgage Licensing Act (12 U.S.C. § 5601 et seq.) and Homeowners Protection Act (12 U.S.C. § 4901 et seq.), do not apply to the origination of the Loan.

6. The Borrower has read and understands the contents of this Borrower Certification of Business Purpose.

IN WITNESS WHEREOF, this Certification has been duly executed by the Borrower as of the date first above written.

Borrower(s):

Signature	Date	Signature	Date
Type/Print Name		Type/Print Name	

Signature	Date	Signature	Date
Type/Print Name		Type/Print Name	

BORROWER CONTACT CONSENT FORM

To ensure we have the correct contact information for servicing your loan, please provide the following information.

By signing, I authorize my mortgage servicer, its transfers and/or assigns, to contact me regarding the servicing of my loan using the following contact information.

Mailing address for your mortgage statements and other correspondence:

______Same as the subject property.

______Please use this mailing address instead:

Address Line 1 ____

Address Line 2 ____

City/State/Zip ______________________________ Country ______________

Cell phone number:

I understand that by providing a cell phone number and by signing this form, I am giving the holder of my mortgage Note and its billing servicer permission to use the cell phone number to contact me regarding my loan.

	Within the United States	If you reside outside the United States
Borrower	(_______)_______-__________________	(_______)_____________________________
Co-Borrower	(_______)_______-__________________	(_______)_____________________________
	(Area code) phone number	(Country code) phone number

Email address:

I understand that by providing an email address, I am giving the holder of my mortgage Note and its billing servicer permission to use this email to contact me regarding my loan.

Borrower ____

Co-Borrower ____

Signature(s):

Borrower ______________________________ Date ______________

Co-Borrower ______________________________ Date ______________

CONDOMINIUM PROJECT QUESTIONNAIRE

Project Name:		**Date:**	
Project Street Address:		**HOA Taxpayer ID:**	
Unit Address:		**Loan Number:**	
HOA Representative:		**Lender Name:**	

In order to determine eligibility of your project, we ask for your assistance in completing this form. Any officer of the association/management may complete this form. It is imperative that each question is answered in full. Your cooperation will assure a smooth experience for both the borrower and the seller.

PART I – PROJECT INFORMATION

Please provide actual numbers and not percentages in the chart below:

Legal Phase # Previous and Future Phases	# of Units Per Phase	# of Buildings	# of Units Complete	# of Units for Sale	# of Units Sold or Under Contract	# of Owner Occupied and Secondary Homes	# of Investor Units
Note: If unable to provide number of second homes, provide number of off-site addresses:							

1. Please provide a breakdown of the total number of units in the Project below:

   # of Owner Occupied Units ____________ **# of Investor Units** ____________ **# of Units Sold from Developer** ____________

   # of Secondary Home Units ____________ **# of Units for Sale** ____________ **# of Units in Entire Project** ____________

2. Does the Project have any characteristics listed below? Please check all that apply: ☐ Yes ☐ No

   ☐ **Hotel/Motel Operations** ☐ **Maid Service** ☐ **Room Service** ☐ **Bellman**

   ☐ **On-Site Registration Desk** ☐ **Houseboat** ☐ **Key-Card Entry** ☐ **Mandatory Rental Pool**

   ☐ **Short Term/Daily Rentals** ☐ **Investment Security** ☐ **Cooperative** ☐ **Manufactured Housing**

   ☐ **Continuing Care Facility** ☐ **Live-Work Project** ☐ **Timeshare** ☐ **Multi Dwelling**

3. What year was the Project built or converted? ____________
4. How many stories or floors does the Project have? ____________
5. What is the maximum number of units allowed in the Project? ____________
6. Are at least 90% of the total units sold and closed? ☐ Yes ☐ No
7. Are all units and common elements complete and not subject to any additional phasing and/or additions? ☐ Yes ☐ No

   If Yes - When was the Project completed? ____________

8. If Project is not complete, is the subject legal phase, or any prior legal phases in which units have been offered for sale, substantially complete and has a Certificate of Occupancy been issued? ☐ Yes ☐ No

   If No - When will the phase be completed? ____________

   Date subject phase completed? ____________

   Date last phase was completed? ____________

   What remains to be completed for project to be 100% complete? ____________

9. Is the Project a conversion of an existing building within the last three years? ☐ Yes ☐ No

   If Yes - What year was the Project original built? ____________

   What date was the conversion completed? ____________

   Was the conversion a gut rehab? Gut rehab refers to the renovation of a property down to the shell, with replacement of all HVAC and electronic components. ☐ Yes ☐ No

   What was the original use of the building? ____________

   Note: If Project is a conversion completed less than four years ago, please submit a copy of the engineer/architect report, evidence of repairs completed, current Reserve Study (last 24 months) and evidence of working capital fund.

10. Is any part of the Project used for commercial space? ☐ Yes ☐ No

    If Yes - What is the total square footage of the commercial space? ____________

    What is the total square footage of the building? ____________

    What floor(s) is the commercial space located on? ____________

    How is the commercial space currently used? ____________

11. Is the Project part of a mixed-use building (contains both commercial and residential space not part of the association)? ☐ Yes ☐ No

    If Yes - What is the total square footage of the commercial space? ____________

    What is the total square footage of the building? ____________

    What floor(s) is the commercial space located on? ____________

    How is the commercial space currently used? ____________

12. Is the HOA or developer involved in any litigation and/or arbitration, including the project being placed in receivership, bankruptcy, deed-in-lieu of foreclosure or foreclosure? ☐ Yes ☐ No

    If Yes - Please describe the details and provide documentation and attorney letter relating to the litigation. ____________

    ____

13. Are there any pending or levied special assessments by the HOA? ☐ Yes ☐ No

    If Yes - What is the total amount of assessment? ____________

    What is the assessment amount per unit? ____________

    What is the term of the assessment? ____________

    What is the current assessment balance? ____________

    Has work been completed? ☐ Yes ☐ No

    Describe the nature of the assessment: ____________

14. Does the association have any knowledge of any adverse environmental factors affecting the Project as a whole or any individual unit within the Project? ☐ Yes ☐ No

    If Yes - Please provide an explanation: ____________

15. Is there more than one association within the Project, covered by a Master or umbrella association? ☐ Yes ☐ No

    If Yes - Master Association name: ____________

    Amenities and/or recreational facilities available through Master Association: ____________

    ____

16. Are there any common amenities and/or recreational facilities available or to be built in the future? If yes, please provide type(s). ☐ Yes ☐ No

☐ **Pool** ☐ **Clubhouse** ☐ **Tennis Court** ☐ **Playground**

☐ **Other (describe):** ____________________

17. Are all common elements, amenities, and/or recreational facilities owned jointly by the unit owners/HOA (including any Master Association)? ☐ Yes ☐ No

If No - Please provide an explanation: ____________________

18. Does the HOA own all amenities and recreational facilities debt and lien free? ☐ Yes ☐ No
19. Do the unit owners in the Project have rights to the use of all common elements/amenities? ☐ Yes ☐ No
20. Does the HOA share any common amenities with other, unaffiliated projects? ☐ Yes ☐ No
21. Does the Project have any mandatory, upfront membership fees for the use of recreational amenities owned by an outside party? ☐ Yes ☐ No
22. Are any units in the Project with resale or deed restrictions? ☐ Yes ☐ No

If Yes - Please explain. Provide related agreements and number of units subject to restriction and unit numbers: ____________________

23. Are all units owned fee simple? ☐ Yes ☐ No
24. Are any of the units owned in a leasehold? If yes, please provide copies of leasehold documents. ☐ Yes ☐ No
25. Is the developer leasing or renting any of the units in the Project? ☐ Yes ☐ No

If Yes - Please provide number of units leased/rented by the developer. ____________________

26. Is the developer responsible for assessments on unsold units? ☐ Yes ☐ No
27. If a unit is taken over in foreclosure, will the mortgagee be liable for more than six months of unpaid dues? ☐ Yes ☐ No
28. How many units are over 60 days delinquent on HOA dues or assessments (including REO owned units)? ____________________
29. How many units are over 30 days delinquent (including units that are over 60 days delinquent) in payment of HOA dues or assessments (including REO owned units)? ____________________
30. Does any single entity (individual, investor, or corporation) own more than 10% of the units in the Project? ☐ Yes ☐ No
31. Are two members of the HOA Board required to sign all checks written from the reserve account? ☐ Yes ☐ No
32. Does the HOA maintain two separate bank accounts for the operating and reserve accounts? ☐ Yes ☐ No
33. Does at least 10% of annual budget provide for funding or replacement reserves, capital expenditures, deferred maintenance and insurance deductibles? ☐ Yes ☐ No
34. What is the current dollar balance of the reserve account? ____________________
35. Has any maintenance or engineering inspection report been completed in the past five (5) years? ☐ Yes ☐ No
    a) If Yes – Any significant deferred maintenance items identified? ☐ Yes ☐ No
        i) If Yes – Provide documentation/evidence that items have been addressed. (Attach Documents)
36. Has the HOA received a directive from a regulatory or inspection agency to mark repairs due to unsafe conditions? ☐ Yes ☐ No
37. Is the Project professionally managed? ☐ Yes ☐ No

If Yes - What is the length of the current management contract? ____________________

Does the management contract require a penalty for cancellation of at least 90 days? ☐ Yes ☐ No

38. Has the developer turned over Project control to the unit owners? ☐ Yes ☐ No

If Yes - When was it turned over? ______________________

If No - What is the anticipated date the Project will be turned over to the unit owners? ______________________

39. If/when the Project is turned over to the unit owners, does the developer retain any ownership in the Project besides unsold units? ☐ Yes ☐ No

If Yes - Please provide what is owned by the developer and how it is used: ______________________

____

PART II – PREPARER INFORMATION

Name: ______________________ **Phone:** ______________________

Title: ______________________ **Email:** ______________________

When completed, by HOA representative, this form will be utilized to help determine financing eligibility of a unit within the Project. Completion of this form does not create legal liability on the part of the preparer.

The undersigned hereby certifies that the above information is true and correct to the best of the preparer's knowledge and is presented on behalf of the Homeowners Association for the Project listed.

Signature of HOA Representative: ______________________ **Date:** ______________________

LIMITED LIABILITY COMPANY BORROWING CERTIFICATE

TO: Broker First Funding (BFF)

The undersigned, being all the members of [____________, a ____ limited liability company]("Borrower"), do hereby certify that they are all of the managers and members of Borrower and, under the Borrower's [Operating Agreement][Limited Liability Company Agreement] and by these presents, the undersigned are each authorized and empowered for and on behalf of and in the name of Borrower and without any requirement for consent or approval by any other person or party, as Borrower's act and deed:

1. To borrow money from **FlexPoint Inc**. ("Lender") and to assume any liabilities of any other person or entity to Lender, in such form and on such terms and conditions as shall be agreed upon by those authorized above and Lender, and to sign and deliver such promissory notes and other evidences of indebtedness for money borrowed or advanced and/or for indebtedness assumed as Lender shall require; such promissory notes or other evidences of indebtedness may provide that advances be requested by telephone communication and by any member, manager, employee or agent of Borrower so long as the advances are deposited into any deposit account of Borrower with Lender; Borrower shall be bound to Lender by and Lender may rely upon any communication or act, including telephone communications, purporting to be done by any member, manager, employee or agent of Borrower, provided that Lender believes, in good faith, that the same is done by such person.
2. To mortgage, encumber, pledge, convey, grant, assign or otherwise transfer all or any part of Borrower's real or personal property for the purpose of securing the payment of any of the promissory notes, contracts, instruments, and other evidence of indebtedness authorized hereby, and to execute and deliver to Lender such deeds of trust, mortgages, pledge agreements and/or other security agreements as Lender shall require.
3. To perform all acts and execute and deliver all documents described above and all other contracts and instruments which Lender deems necessary or convenient to accomplish the purposes of this certificate and/or to perfect or continue the rights, remedies and security interests to be given to Lender, including, without limitation, any modifications, renewals and/or extensions of any of Borrower's obligations to Lender, however evidenced; provided that the aggregate principal amount of all sums borrowed and credits established pursuant to this certificate shall not at any time exceed the sum of [$_____________] outstanding and unpaid.

The authority hereby conferred shall be deemed retroactive, and any and all acts authorized herein which were performed prior to the execution of this certificate are hereby approved and ratified. The authority hereby conferred is in addition to that conferred by any other certificate heretofore or hereafter delivered to Lender and shall continue in full force and effect until Lender shall have received notice in writing from Borrower of the revocation hereof, and such revocation shall be effective only as to credit which was not extended or committed to Borrower by Lender prior to Lender's receipt of such notice.

We further certify that the activities covered by the foregoing certifications constitute duly authorized activities of Borrower; that said certifications are now in full force and effect; and that there is no provision in any document pursuant to which Borrower is organized and/or which governs Borrower's continued existence limiting the power of the undersigned to make the certifications set forth herein, and that the same are in conformity with the provisions of all such documents.

IN WITNESS WHEREOF, the undersigned has hereunto executed this Certificate as of [____________, 20__].

Signature	Signature
Printed Name ______________________	Printed Name ______________________

Title		Title	
Signature Printed Name		Signature Printed Name	
Title		Title	

LLC BORROWING CERTIFICATE - SINGLE MEMBER (NON-QM ONLY)

LIMITED LIABILITY COMPANY BORROWING CERTIFICATE

TO: FLEXPOINT INC.

The undersigned, being the sole member of [_______, a____limited liability company] ("**Borrower**"), does hereby certify that they are the sole and only member of Borrower and, under the Borrower's [Operating Agreement] [Limited Liability Company Agreement] and by these presents, the undersigned is authorized and empowered for and on behalf of and in the name of Borrower and without any requirement for consent or approval by any other person or party, as Borrower's act and deed:

1. To borrow money from FlexPoint Inc. ("**Lender**") and to assume any liabilities of any other person or entity to Lender, in such form and on such terms and conditions as shall be agreed upon by those authorized above and Lender, and to sign and deliver such promissory notes and other evidences of indebtedness for money borrowed or advanced and/or for indebtedness assumed as Lender shall require; such promissory notes or other evidences of indebtedness may provide that advances be requested by telephone communication and by any member, manager, employee or agent of Borrower so long as the advances are deposited into any deposit account of Borrower with Lender; Borrower shall be bound to Lender by and Lender may rely upon any communication or act, including telephone communications, purporting to be done by any member, manager, employee or agent of Borrower provided that Lender believes, in good faith, that the same is done by such person.
2. To mortgage, encumber, pledge, convey, grant, assign or otherwise transfer all or any part of Borrower's real or personal property for the purpose of securing the payment of any of the promissory notes, contracts, instruments, and other evidence of indebtedness authorized hereby, and to execute and deliver to Lender such deeds of trust, mortgages, pledge agreements and/or other security agreements as Lender shall require.
3. To perform all acts and execute and deliver all documents described above and all other contracts and instruments which Lender deems necessary or convenient to accomplish the purposes of this certificate and/or to perfect or continue the rights, remedies and security interests to be given to Lender, including, without limitation, any modifications, renewals and/or extensions of any of Borrower's obligations to Lender, however evidenced; provided that the aggregate principal amount of all sums borrowed and credits established pursuant to this certificate shall not at any time exceed the sum of [$______________________] outstanding and unpaid.

The authority hereby conferred shall be deemed retroactive, and any and all acts authorized herein which were performed prior to the execution of this certificate are hereby approved and ratified. The authority hereby conferred is in addition to that conferred by any other certificate heretofore or hereafter delivered to Lender and shall continue in full force and effect until Lender shall have received notice in writing from Borrower of the revocation hereof, and such revocation shall be effective only as to credit which was not extended or committed to Borrower by Lender prior to Lender's receipt of such notice.

The undersigned further certifies that the activities covered by the foregoing certifications constitute duly authorized activities of Borrower; that said certifications are now in full force and effect; and that there is no provision in any document pursuant to which Borrower is organized and/or which governs Borrower's continued existence limiting the power of the undersigned to make the certifications set forth herein, and that the same are in conformity with the provisions of all such documents.

IN WITNESS WHEREOF, the undersigned has hereunto executed this Certificate as of [______________, 20__].

____

By (Signature)

____

Name (Printed)

____

Title

Initial ATR Index:	
Lien Position:	
Purpose:	
Total Cash Out:	
Total Cash %:	
Reserves (Months):	
Cash Reserves:	
Hsg./Mtg. Hist. 30x12:	
Hsg./Mtg. Hist. 60x12:	
Hsg./Mtg. Hist. 90x12:	

Other Debt:	
Previous total debt:	
Qualifying Score:	
# Of Active Trades:	
Properties owned:	
Escrows:	
Hsg./Mtg. Hist. 30x24:	
Hsg./Mtg. Hist. 60x24:	
Hsg./Mtg. Hist. 90x24:	

NON-OCCUPANT CO-BORROWER CERTIFICATION (NON-QM ONLY)

NON-OCCUPANT CO-BORROWER CERTIFICATION

Borrower ____

Co-Borrower(s) ____

Property Address ____

I/We the undersigned certify that:

____ I am/We are the co-borrower(s) of the Promissory Note associated with the first mortgage loan that is being made to the above Borrower(s).

____ I/We attest that my/our income is/are being taken into account for qualifying purposes only.

____ I/We attest that we do not currently, nor will ever occupy the above-mentioned Subject property.

____ I/We attest that we will sign the mortgage or deed of trust note at closing.

____ I/We understand that upon consummation of this transaction I/we will have joint liability for the note with the Borrower(s).

____ I/We do not have an interest in the property sales transaction, such as the property seller(s), the builder(s), or the real estate broker(s).

I/We understand that it is illegal to provide false information in an application for a mortgage loan. Mortgage fraud is punishable by up to thirty (30) years in federal prison or a fine of up to $1,000,000, or both under the provisions of Title 18, United States Code, Sec. 1001, et seq.

I/We understand that failure to comply with the requirements in the Mortgage or Deed of Trust regarding occupancy of the property will entitle the Lender to exercise its remedies for breach of covenant under the Mortgage or Deed of Trust. Such remedies include, without limitation, requiring immediate payment in full of the remaining indebtedness under the Loan together with all other sums secured by the Mortgage or Deed of Trust, and exercise of power of sale or other applicable foreclosure remedies, to the extent permitted by the Mortgage or Deed of Trust.

Borrower	Date	Co-Borrower	Date
Co-Borrower	Date	Co-Borrower	Date

OCCUPANCY CERTIFICATION

Borrower ______________________________

Co-Borrower(s) ______________________________

Property Address ______________________________

I/We the undersigned certify that:

_____ Primary Residence – I/we will occupy the Property as my/our principal residence within Sixty (60) days after the date of closing as stated in the Mortgage or Deed of Trust I/we executed. I/we will continue to occupy the Property as my/our principal residence for at least one year after the date of occupancy, unless Lender otherwise agrees in writing.

_____ Second Home – I/we will occupy the Property as a second home (vacation, etc.) while maintaining a principal residence elsewhere.

_____ Investment Property – I/we will not occupy the Property as a principal resident or second home. I/we will not occupy the Property for more than 14 days in any calendar year. The Property is an investment to be held or rented rather than for household or personal use.

INVESTMENT PROPERTY ONLY (the following **must** be completed on an investment property loan)

_____ I/we understand that consumer protection laws applicable to consumer loans will not apply to this loan, including the Truth in Lending Act (15 U.S.C. § 1601 *et seq.*), Real Estate Settlement Procedures Act (12 U.S.C. § 2601 *et seq.*), Gramm-Leach Bliley Act (15 U.S.C. §§ 6802-6809), Secure and Fair Enforcement Mortgage Licensing Act (12 U.S.C. § 5101 *et seq.*), and Homeowners Protection Act (12 U.S.C. § 4901 *et seq.*).

REFINANCE ONLY (the following **must** be completed on a refinance transaction)

_____ I/We the undersigned, certify that the property referenced above is **NOT** currently listed for sale or under contract to be listed for sale.

I/We understand that it is illegal to provide false information in an application for a mortgage loan. Mortgage fraud is punishable by up to thirty (30) years in federal prison or a fine of up to $1,000,000, or both under the provisions of Title 18, United States Code, Sec. 1001, et seq.

I/We understand that failure to comply with the requirements in the Mortgage or Deed of Trust regarding occupancy of the property will entitle the Lender to exercise its remedies for breach of covenant under the Mortgage or Deed of Trust. Such remedies include, without limitation, requiring immediate payment in full of the remaining indebtedness under the Loan together with all other sums secured by the Mortgage or Deed of Trust, and exercise of power of sale or other applicable foreclosure remedies, to the extent permitted by the Mortgage or Deed of Trust.

Borrower	Date	Co-Borrower	Date
Co-Borrower	Date	Co-Borrower	Date

Pre-Close Eligibility Checklist

Document Submission Checklist - (Not program based, every document may not be applicable)

- ☐ Copy of Loan Estimate
- ☐ Rate Lock Disclosure
- ☐ FNMA 1003 application or similar application (Business Purpose)
- ☐ FNMA 1008 or U/W approval worksheet
- ☐ Credit Report
- ☐ Credit explanation letters
- ☐ Fraud Report
- ☐ Verification of Mortgage/Rent
- ☐ Employment/Income Verification
  - Standard Income Documentation
    - Paystubs
    - W-2's
    - 4506-C
    - W-2 Transcript
    - Tax Returns
    - Tax Return Transcript
    - Profit & Loss
  - Alt Doc - Bank Statement Documentation
    - Income Worksheet (Bank Statement Calculator)
    - Personal Bank Statements
    - Business Bank Statements
    - Profit & Loss Statement
    - Expense Statement Letter
    - Evidence of Self-Employment
    - Written VOE
  - DSCR Documentation
    - Lease Agreement(s)
- ☐ Asset Verification
  - Financial Statements or VOD
  - Earnest Money Documentation
  - Gift Letter and supporting documents
- ☐ Property
  - Appraisal Report (FNMA 1004, 1025, 1073, and 1007 if applicable)
  - Enhanced Desk Review (CDA, ARR, or ARA) or CU® Score
  - Copy of Executed Purchase Agreement/Sales Contract
  - Condo HOA Questionnaire
  - Preliminary Title

Self-Employed Business Narrative Form

This form to be completed by an employee (non-relative) of the borrower's business, with knowledge and information of the operations and finances of the business. Typical positions held by this employee would include: Controller, Treasurer, V.P. Finance, Finance Manager, Accounting Manager or Human Resources Manager. This form can also be completed by a third-party individual with direct knowledge of the borrower's business, such as Certified Public Accountant or an IRS Enrolled Agent.

1. Using the North American Industry Classification System (NAICS) below, please check the industry that best describes this business:

   ☐ Retail Trade
   ☐ Wholesale Trade
   ☐ Accommodation-Food Service
   ☐ Agriculture-Forestry-Fishing-Hunting
   ☐ Construction (Home & Remodeling)
   ☐ Manufacturing
   ☐ Transportation-Warehousing
   ☐ Utilities
   ☐ Educational Services
   ☐ Mining-Quarrying-Oil & Gas Extraction
   ☐ Other Services
   ☐ Administrative-Support-Waste Management
   ☐ Information
   ☐ Real Estate-Rental and Leasing
   ☐ Arts-Entertainment-Recreation
   ☐ Professional-Scientific-Technical Service
   ☐ Health Care-Social Assistance
   ☐ Finance and Insurance

   Businesses within an industry that experience higher expense ratios are not eligible for the 50% analysis method. Higher expense industries include: Construction, Manufacturing, Retail/Wholesale Trade, Hospitality/Food/Beverage Services, Transportation.
2. Name of business:

   ____
3. Number of owners: ______________________
4. Service or Product provided:

   ____
5. Date business started: ______________________
6. Business legal structure: ☐ Partnership ☐ Corporation ☐ Sub-S Corporation ☐ Limited Liability Company
7. Business location: (insert address of primary location)
   a. Is the space a ☐ residence or ☐ commercial/warehouse?
8. Number of business locations: ☐ one ☐ 2-5 ☐ greater than 5
9. Are these locations ☐ owned or ☐ leased?
10. Number of employees: ☐ 0-5 ☐ 6-10 ☐ 11-25 ☐ greater than 25
11. Describe any machinery or equipment required for business operations:
12. Does the business require inventory (raw material or finished goods) to generate sales?
    ☐ Yes ☐ No

a. If yes, describe the inventory and turnover ratio:

____

Name	Email
Title	Phone Number
Signature	Date

CONSENT OF SPOUSE

I, **[Name of Spouse]**, spouse of **[Name of Guarantor]**, acknowledge that I have read the **[Guaranty]**, dated as of **[Closing Date]**, by **[Name of Guarantor]** (the "Guaranty"), and that I know the contents of the Guaranty. I am aware that the Guaranty contains provisions guaranteeing amounts for the benefit of **[Name of Borrower]** ("Borrower") and in support of that certain promissory note incurred by Borrower and payable to the order of **Flexpoint Inc.** ("Lender"), as well as other obligations under the Guaranty:

I hereby expressly approve of the Guaranty in its entirety, including, but not limited to, that my spouse guarantees to Lender the full and prompt payment when due, whether at the Maturity Date or earlier, the entire amount due under the promissory note (as defined in the Guaranty).

I am aware that the legal and related matters contained in the Guaranty are complex and that I have been advised to seek independent professional guidance or counsel with respect to this Consent. I have either sought such guidance or counsel or determined after reviewing the Guaranty carefully that I will, and hereby do, waive such right.

Signed ___________________________________

Name of Spouse ___________________________________

Spouse Address ____________________________

____

____

State of ________________________

County of _______________________

The foregoing instrument was acknowledged before me on this ____________, 20____ by ____________________________________ (spouse).

(Notary Seal)

____

Signature of Notary Public

Consent to Share Tax Returns

Loan: ____

Borrower: ____

Date: ____________________

I understand, acknowledge, and agree that FlexPoint Inc. ("Lender") and Other Loan Participants can obtain, use and share tax return information for purposes of (i) providing an offer; (ii) originating, maintaining, managing, monitoring, servicing, selling, insuring, and securitizing a loan; (iii) marketing; or (iv) as otherwise permitted by applicable laws, including state and federal privacy and data security laws. The Lender includes the Lender's affiliates, agents, service providers and any of aforementioned parties' successors and assigns. The Other Loan Participants includes any actual or potential owners of a loan resulting from your loan application, or acquirers of any beneficial or other interest in the loan, any mortgage insurer, guarantor, any servicers, or service providers for these parties and any of aforementioned parties' successors and assigns.

____

Borrower

____

Co-Borrower