Non-QM Guide

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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

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.

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.

1.5.2 – FLOOD INSURANCE ESCROW REQUIREMENTS – (09/02/2024)

- Escrow accounts for flood insurance premiums are required for all loans secured by residential improved real estate.
  - Business purpose loans are exempt from this escrow requirement.

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 – (09/02/2024)

The effective date of the title insurance coverage written on forms that do not provide the gap coverage included in the 2021 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 2021 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 - 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

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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 - (09/02/2024)

Full Document	Expanded Program	DSCR*	FOREIGN NATIONAL
All Occupancy	**All Occupancy**	**Investment**	**Investment**
Minimum Credit Score: 660	Minimum Credit Score: 660	Minimum Credit Score: 680	Eligible – no restrictions
Maximum LTV/CLTV 90%	Maximum LTV/CLTV: 85%	Maximum LTV/CLTV: 75%	

* See program matrices for more information.

LOAN AMOUNTS – (09/02/2024)

Full Document	Expanded Program	DSCR*	FOREIGN NATIONAL
Minimum: $150,000	Minimum: $150,000	Minimum: $100,000	Minimum: $150,000
Maximum: $4,000,000	Maximum: $4,000,000	Maximum: $3,500,000	Maximum: $1,500,000

* See program matrices for more information.

MINIMUM CREDIT SCORE – (02/26/2024)

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

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2.3 - SOLAR PANEL REQUIREMENTS – (09/02/24)

2.3.1 – 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 requirements apply (for example, appraisal, insurance, and title).

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 underwriter obtains a UCC "personal property" search that confirms the solar panels are not claimed as collateral by any non-mortgage lender.

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.

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

2.3.2 – REQUIREMENTS FOR PROPERTIES WITH SOLAR PANELS THAT ARE OWNED

Solar panels purchased through financing may or may not include the real estate as collateral.

2.3.2.A - FINANCED AND COLLATERALIZED (UCC ON TITLE)

The solar panels are collateral for the separate debt used to purchase the panels, but they are a fixture to the real estate because a UCC fixture filing* has been filed for the panels in the real estate records (on title report).

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

- Obtain and review the credit report, title report, appraisal, and/or UCC fixture filing*, related promissory note and related security agreement that reflect the terms of the secured loan.
  - Include the debt obligation in the debt-to-income ratio.
- 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).
- Include the solar panels financing balance int the LTV/CLTV ratio calculation (if unable to obtain, utilize original balance). The UCC fixture filing* must be subordinated with one of the following:
  - Subordination Agreement.
  - UCC Termination.
    - Debt obligation is to be included in debt-to-income ratio and LTV/CLTV unless proof is provided verifying the debt has been paid down to zero (UCC termination does not automatically verify the debt is paid off).
- CLTA Endorsement 150-06 is not eligible to be used in lieu of a Subordination agreement or UCC Termination.

*A fixture filing is a UCC-1 financing statement authorized and made in accordance with the UCC adopted in the state in which the related real property is located. It covers property that is, or will be, affixed to improvements to such real property. It contains both a description of the collateral that is, or is to be, affixed to that such property, and a description of such real property. It is filed in the same office that mortgages are recorded under the law of the state in which the real property is located. Filing in the land records provides notice to third parties, including title insurance companies, of the existence and perfection of a security interest in the fixture. If properly filed, the security interest in the described fixture has priority over the lien of a subsequently recorded mortgage.

2.3.2.B – FINANCED AND COLLATERALIZED (UCC NOT ON TITLE)

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.

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

- Obtain and review the credit report, title report, appraisal, related promissory note and related security agreement that reflect the term of the secured loan.
  - Include the debt obligation in the debt-to-income ratio.
- Instruct the appraiser not to provide contributory value of the solar panels towards the appraised value because the panels are collateral for another debt.
- Do not include the panels in the LTV/CLTV ratio calculation.
- If a previously filed UCC was temporarily removed from title through a UCC termination, evidence must be provided that the UCC was paid in full otherwise the financed balance must be included in LTV/CLTV.

2.3.2.C – PACE (PROPERTY ASSESSED CLEAN ENERGY)

PACE allows homeowners to finance energy improvements through an assessment in their annual property tax bills.

- Properties with solar panels and other energy efficient items financed with a PACE loan are not eligible if the PACE loan is not paid in full prior to or at closing.
  - PACE loans, in some cases, are also referred to as HERO loans.
  - Any property tax statement that reflects PACE, HERO, or equivalent will require proof of payoff.
    - If loan proceeds are used to pay off the PACE loan, the transaction will be considered cash out.

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

If the solar panels are leased from or owned by a third party under a power purchase agreement or other similar lease arrangement, the following requirements apply (whether to the original agreement or as subsequently amended).

- 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

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  - 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/CLTV ratio calculation, even if a precautionary UCC filling 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 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 underwriter may verify that the owner of the solar panels is not a name loss payee (or named insured) on the property owner's property insurance policy; and
  - In the event of foreclosure, BFF 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 / O&E. 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 (05/01/25)

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. The Underwriter must validate the borrower has employment authorization. This may be documented with either an EAD or a VISA permitting employment.

- Borrower Eligibility Requirements:
  - Residing in U.S. for at least 2 years; and
  - Must have been employed in the U.S. for at least 2 years as evidenced on the loan application; and
  - Must have valid Social Security Number(s); and
  - Must have established U.S. credit, see Section 6 – Credit.
- Employment Status Documentation is required for all borrowers, and may consist of one of the following:
  - Employment Authorization Documents, provide one of the following:
    - Form I-766, Employment Authorization Document (EAD), (work permit/card) is required for US employment if the borrower is not sponsored by a current employer.
      - If the EAD will expire within six (6) months of loan application, it is acceptable to obtain a letter from the employer documenting the borrower's continued employment and continued EAD renewal. The employer on the loan application must be the same as on the unexpired EAD. The EAD documentation is acceptable up to 540 days if an automatic extension has been granted.
    - Form I-765 Application for Employment Authorization the form:
      - Must reflect approval status in the Action Block (upper right-hand corner of the form).
    - Form I-797, I707A, I-797B, or I-797C conveying approval status
      - Petitioner to match employer name on application
  - If EAD is not provided, a copy of the Visa permitting employment authorization needs to be included in the credit file. The following Visa types are acceptable:
      - E-1, E-2, E-3, G-1 through G-5, H-1B, L-1A, L-1B, O-1, R-1.
  - Asylum – Individuals granted asylum are eligible, documentation includes one of the following:
      - Form I-766 Employment Authorization Document (EAD), (work permit/card) referencing code CO8, or
      - Form I-94 with a stamp or notation, such as "asylum granted indefinitely" or the appropriate provision of law (8 CFR 274a.12(a)(5) or INA 208) to show their employment authorization. The asylee does not need to present a foreign passport with this Form I-94. An asylee can also present an electronic Form I-94 with an admission class of "AY."
  - Deferred Action for Childhood Arrivals (DACA)
      - Form I-766 Employment Authorization Document (EAD), (work permit/card) referencing code C33, or
      - Form I-797 conveying approval status for Case Type I765-Application for Employment Authorization referencing code C33, or
      - Form I-765 Application for Employment Authorization, the form:
        - Must reflect approval status in the Action Block (upper right-hand corner of the form)

- Guideline restrictions:
  - Full or Expanded Documentation limited to 12 months only. Maximum LTV/CLTV limited to 85% for Primary and 80% for Second home.
  - DSCR Documentation (Investment Only): Maximum LTV/CLTV 75%.
  - Non-occupant co-borrowers are not allowed.
  - Gift funds are not allowed.

4.1.4 – ITIN BORROWERS – (09/02/24)

Individual Taxpayer Identification Number (ITIN) borrowers are individuals with an ITIN who reside and work within the United States but do not possess U.S. citizenship. ITIN borrowers are eligible for owner-occupied under select products and programs of the ITIN Program only.

The following is required for all ITIN borrowers:

- All documentation in the file must support the borrower's ITIN number and cannot reference an SSN belonging to another individual.
- DACA is eligible with ITIN with Valid US driver's license along with EAD card evidencing their DACA status.
- ITIN must be valid and at least two (2) years consistent ITIN payments reporting to the IRs is required. This can be validated with the borrower's current ITIN# along with a 2-year employment history.
- If multiple borrowers, one borrower must have ITIN.
- Document Required for borrowers with an ITIN that do not have U.S citizenship but do reside and work within the United States:
  - Unexpired government photo ID (Government license, passport, matricula consular, etc...)
  - ITIN card or letter from IRS.
  - ITIN is required to be assigned to the borrower prior to application taken date.
  - Verification of the unexpired ITIN is provided by a legible copy of the letter from the IRS confirming the ITIN is assigned to the borrower prior to consummation.
    - IRS form W7 is not acceptable evidence if the ITIN letter is not provided, or if the ITIN letter submitted is not legible.
    - Expired ITIN's may submit a file tax return using an ITIN within the last 3 calendar years or expiring within the next six (6) months must also include a fully signed W7 (executed by all parties) to evidence current status.

See ITIN matrix for more information.

4.1.5 - FOREIGN NATIONAL – (05/01/25)

A Foreign National is a non-resident alien who may not purchase property intended for use as a primary residence or second home. Occupancy is limited to investment.

Foreign Nationals are not eligible under Full or Expanded Documentation.

Foreign National limited to the following occupancy:

- Non-owner-occupied investment.

Foreign Nationals are eligible under the following matrices:

- Foreign National (DSCR - Investment properties)

Foreign Nationals are not eligible under the following matrices

- DSCR 5-8 unit; 2–8-unit mixed-use properties or Cross Collateral.

4.1.5.A - 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 borrower's 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.

4.1.6 – 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.

4.1.7 - FOREIGN NATIONAL PROGRAM SPECIFIC DOCUMENTATION REQUIREMENTS – (05/01/25)

- The following are required as evidence the borrower is in the U.S legally:
  - Copy of the borrowers valid and unexpired passport (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 require to provide a valid visa. Patricipating counties can be found at

https://travel.state.gov/content/travel/en/us-visas/tourism-visit/visa-waiver-program.html the borrowers country of orgin highlighted or

- Citizens of Canada traveling to the United States do not require a nonimmigrant visa.

- If a non-U.S. citizen is borrowing with a U.S. citizen, foreign national documentation requirements do not apply.
- OFAC SDN screening: See Section 6.2.2A – Individuals for criteria.
- OFAC Sactioned Countries: See Section 6.2.2B – Foreign Counties for criteria.
- Florida Purchases: Loans secured by property located in the state of Florida made to foreign principals, persons, and entities are to include one of the following Affidavits published by the Florida Land Title Association:
  - Conveyances to Foreign Entities – By Individual Buyer
    - All members signing a Personal Guaranty mus sign the affidavit
  - Conveyances to Foreign Entities – By Entity Buyer
    - All member signing a Personal Guaranty must sign the affidavit
- 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/replace-certify-docs/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.

4.1.8 – QUALIFYING U.S. CREDIT FOREIGN NATIONAL BORROWERS – (09/02/2024)

- For foreign national borrowers with a valid Social Security number, a credit report should be obtained. The credit report must be included in file evidencing the borrower's score or score is not available. Requirements found in the Section 6 - Credit 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.

4.1.9 – QUALIFYING FOREIGN CREDIT – (09/02/2024)

- Qualifying foreign credit borrowers must establish an acceptable credit history demonstrating either 2 open tradelines reporting for 2 years with activity in the most recent 12 months displaying or three open trades with a 12+ month rating. In either example trades must experience no derogatory payments. This can be accomplished through a combination of ANY of the following:
  - Tradelines evidenced on a US Credit Report; and/or
  - Tradeline evidenced on an international credit report if a US credit report cannot be produced or does not reflect sufficient trades; and/or
  - Alternative tradelines consisting of two of the following:
    - Credit reference letter(s) from the borrower's country of origin with the following info:
      - State the type and length of the relationship, how the accounts are held, and status of the account.
      - Contact information must be provided for the person signing the letter; and
      - Any translation must be signed and dated by a certified translator.
    - A 2-year housing history can be used as a tradeline (if a primary residence is owned free and clear but taxes and insurance is paid for 12 months or more this can be used for one of the 3 trade lines.
- A primary housing history for a borrower who has never lived or owned property in the U.S. is not required.
- Subject property refinance transactions (including cash out), see Section 6.4 – Housing History.

4.1.10 - FOREIGN NATIONAL INCOME

- DSCR must comply with all DSCR Documentation guidelines.

4.1.11 - FOREIGN NATIONAL ASSETS RESERVES – (01/22/2024)

- Six (6) months of PITIA reverves are required.

4.1.12 – ASSETS HELD IN FOREIGN ACCOUNTS – (05/01/2025)

Assets held in foreign accounts may be used as a source of funds to close and to meet applicable reserve requirements.

One of the following options may be utilized:

- Transferred to a U.S. domiciled account in the borrower's name at least ten (10) days prior to closing unless funds are held in a foreign bank with U.S. branches insured by the FDIC; or
- Verified funds for closing to be wired directly to the closing agent. Wire transfer to include bank name, accountholder name, and account number. Bank used as source of wire transfer must match the bank holding the assets verified in the loan file.

Documentation for assets held in foreign accounts:

- Assets must be verified in U.S. Dollar equivalency at the current exchange rate via either www.xe.com or the Wall Street Journal conversion table.
- A copy of the most recent statement of that account.
- See section 7.2 - Asset Documentation of this guide for eligible sources and types of assets.

Reserves may remain in a foreign bank account or may be documented in a U.S. bank account.

4.1.13 - FOREIGN NATIONAL GIFT FUNDS – (01/22/2024)

Gift funds are not allowed.

4.2 - NON-OCCUPANT CO-BORROWERS – (01/22/2024)

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

- Primary purchase and Rate/Term Refinance transactions only.
- 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 – (09/02/2024)

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

Note: An individual who is a displaced homemaker or single parent also will be considered a first-time homebuyer if he or she had no ownership interest in a principal residence (other than a joint ownership interest with a spouse) during the preceding three-year time period.

The following requirements apply to first-time homebuyer transactions:

- Primary residence or second home only.
- Minimum six (6) months of reserves.
- 12-month rental history is required, reflecting 0x30. Refer to Section 6.5 – Housing History
- Individuals living rent free eligible, refer to Living Rent Free section 6.5.3.

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 (01/22/24)

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
- Inter vivos revocable trust.

Ineligible forms of vesting are:

- Land trusts

- Blind trusts
- Tenants in Common
- IRAs

4.5.1 – INTER VIVOS REVOCABLE TRUST – (09/02/24)

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.

An inter vivos revocable trust is a trust that:

- an individual creates during their lifetime.
- becomes effective during its creator's lifetime; and
- can be changed or canceled by its creator at any time, for any reason, during that individual's lifetime.

Trust eligibility is not affected if the trust documents contain a provision that the trust will, in the future, become irrevocable upon the death of one of the settlors/trustees.

4.5.1.A – TRUST AND TRUSTEE REQUIREMENTS:

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. 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); or
- an institutional trustee that customarily performs trust functions in and is authorized to act as trustee under the laws of, the applicable state.

The trustee must:

1) have the power to hold the title and
2) mortgage the security property for the purpose of securing a loan to the individual (or individuals) who are the borrower(s) under the mortgage or note. One or more of the trustees establishing the trust must use personal income and/or assets to qualify for the mortgage.

4.5.1.B – TRUST DOCUMENTATION REQUIREMENTS

Trust documents are to be obtained as follows:

- Fully executed and notarized Certificate of Trust
    - Or as applicable under state law
- If allowed by state law, alternative trust documentation may be acceptable.

Trust documents are to verify the following:

- Trust is revocable.
- The borrower is the trustee and settler of the trust.
- Borrower is the primary beneficiary of the trust, when disclosed.
- Trustee is:
    - Duly qualified under applicable law to serve as trustee.
    - Fully authorized under the trust documents and applicable law to pledge or otherwise encumber the trust assets

4.5.2 – VESTING FOR BUSINESS PURPOSE LOAN – (09/02/2024)

A Business Purpose Loan where the borrower is an entity is limited to the following structures: Limited Liability Company (LLC), Partnership, and Corporation.

The following requirements apply to all loans vested in an entity:

- Purpose and activities are limited to ownership and management of real property.
- Multi-level entity structures are allowed subject to entity documentation requirements met for all entities.
- Entity must be domiciled in a US State.
- Any business structure is limited to a maximum of four (4) member(s) or manager(s).
- Personal guaranties must be provided by member(s)/manager(s) representing at least 50% ownership of the entity. The personal guaranty form is available on the FlexPoint / BFF website: www.bffws.com.
- A guarantor must have authority to execute loan documents on behalf of the entity.
- Each Entity member providing a personal guaranty (full recourse) must complete a Form 1003 or similar credit application indicating clearly that such document is being provided in the capacity of guarantor. Only the debt appearing on the personal credit report of individual(s) providing a personal guaranty needs to be reflected on the 1003 loan application. The application of each member providing a personal guaranty and their credit score, and creditworthiness will also be used to determine qualification and pricing.

- No Broker/Correspondent Seller or 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.

4.5.2.A – GUARANTOR(S) DOCUMENTATION – (09/02/2024)

- Loan Application Fannie Mae Form 1003.
  - Completed for each member of the Entity providing a guaranty.
  - Section labelled "Title will be held in what Name(s)" should be completed with only the LLC name.
    - Signed by Individuals
- Credit Report from at least one (1) guarantor. Refer to Section 6 – Credit Reports
- Loan Documents:
  - Business purpose loan disclosures as applicable (e.g., GFE, TIL, LE, CD, ECOA)
  - Any state or federally required settlement statement as applicable.
- Note, Deed of Trust/Mortgage, and all applicable Riders must be executed by the guarantor in their capacity as authorized signer for the entity.
- Personal Guaranty
  - The guaranty must be full recourse.
  - The guaranty must reference the Note and loan amount.
  - Personal Guaranties from community property states (AZ, NM, TX, WA, WI) must be accompanied with a Spousal Consent to Pledge. See Spousal Consent Form.

4.5.2.B – ENTITY DOCUMENTATION REQUIREMENTS – (05/01/2025)

Limited Liability Company (LLC)

- Entity articles of organization or partnership (or equivalent)
- Evidence of good standing for the state in which the entity was formed
  - Evidence of good standing is not required for a new entity (i.e., formed within 120 days of the Note Date)
  - For all other entities, a certificate of good standing is required as follows:
    - Certificated of Good Standing or screen shot from state website
      - The date the document was pulled must be dated within 120 days of the Note Date.
- Entity documents authorizing the guarantor to execute loan documents on behalf of the entity (e.g., Operating Agreement, Certificate of Authorization)
  - If not available, a Borrowing Certificate is required.
    - Borrowing Certificate (LLC Borrowing Certificate - Single Member or LLC Borrowing Certificate - Multiple Member)

- Entity documents that include a list of members/managers and ownership percentage (e.g., organization structure)
- EIN/Tax Identification Number
  - Single members of LLC may use EIN or the guarantor social security number.
  - Multi-member LLCs require an EIN.

Corporation

- Filed Certificate/Articles of Incorporation and all amendments (or equivalent)
- By-Laws and all amendments
- Evidence of good standing for the state in which the entity was formed
  - Evidence of good standing is not required for a new entity (i.e., formed within 120 days of the Note Date)
  - For all other entities, a certificate of good standing is required as follows:
    - Certificate of Good Standing or Screen shot from state website
      - The date the document was pulled must be dated within 120 days of the Note Date.
- EIN/Tax Identification Number
- Borrowing Resolution/Corporate Resolution granting authority of signer to enter loan obligation.

Partnership

- Filed Partnership Certificate (if a general partnership, filing with the SOS may not be required)
- Partnership Agreement and all amendments
- Evidence of good standing for the state in which the entity was formed
  - Evidence of good standing is not required for new entity (i.e., formed within 120 days of the Note date)
  - For all other entities, a certificate of good standing is required as follows:
    - Certificate of Good Standing or Screen shot from state website
      - The date the document was pulled must be dated within 120 days of the Note date
- EIN/Tax Identification Number
- Limited partner consents (where required by partnership agreement).

Documents must be completed and signed as follows:

- Signed as an individual(s):
  - Loan Application (Fannie Mae Form 1003)

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

4.5.2 - 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]

4.5.3 – 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 – (05/01/2025)

- 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.
- Arm's Length For-Sale-By-Owner (FSBO) transactions allowed.
  - If Non-Arm's Length, see Section 5.3.1 – Non-Arm's Length Transactions.
- 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
- Buyer's Real Estate Agent Commission - In response to the NAR Settlement, the following apply:
  - Commission paid by the property buyer: Considered a closing cost.
    - Source of funds must be documented in assets.
    - If borrower or financed, the monthly payment must be included in the debt-to-income ratio.
  - Commission paid by the property seller:
    - Not considered an interested party contribution if the seller agrees to pay according to the negotiated terms of the purchase contract.

5.1.2 - RATE/TERM REFINANCE – (05/01/2025)

At least one borrower must have an ownership interest (vested on title) in the subject property at the time of the initial application.

- 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.
- 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.
- Refinance of a previous loan that provided cash out, as measured from the previous note date to the new Note date, and is seasoned less than 12 months, will be considered a cash out refinance.

- The transaction must be treated as cash-out when the subject property is encumbered by one of the following:
  - Blanket/Cross-Collateralized loan, or
  - Loan that allows for Paid in Kind (PIK) interest.

5.1.2.A – FULL DOCUMENTATION OR EXPANDED DOCUMENTATION – (05/01/2025)

For rate/term refinance transactions, if the subject property was acquired less than six months prior, the current appraised value can be used to determine the loan-to-value ratio.

5.1.2.B –DSCR AND MIXED USE OR FOREIGN NATIONAL – (05/01/2025)

- If the subject property was acquired greater than six (6) months, as measured from the property acquisition date (Note date) to the subject transaction Note date, the appraised value will be used to determine LTV/CLTV.

- If the subject property was acquired less than or equal to six (6) months, as measured from the property acquisition date (Note date) to the subject transaction Note 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.

5.1.2.C – CROSS-COLLATERAL – (05/01/2025)

Refer to Cross-collateral matrix for Rate/Term requirements.

5.1.3 - CASH-OUT – (09/02/2024)

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.

- Cash-Out Seasoning is defined as the length of time the subject property has been owned by the borrower (on title), as measured by the property acquisition date (Note date) to the date of the new note.
  - Minimum borrower seasoning requirements of six (6) months is required.
  - Less than six (6) months seasoning is allowed, the current appraised value may be used, with one of the following documented circumstances:
    - Borrower acquired the subject property through an inheritance, or
    - Subject property was legally awarded the property through divorce, separation, or dissolution of a domestic partnership.
- Property Value Determination
  - For properties owned 12 months or longer: LTV/CLTV is based upon the appraised value.

  - For properties owned for greater than six (6) months but less than 12-months: LTV/CLTV is limited to the lower of the current appraised value or the property's purchase price plus documented improvements.
  - For properties owned less than 6 months, see Section 5.1.4 – Delayed Financing
- 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.
  - Loans with Power of Attorney (POA).

5.1.4 – DELAYED FINANCING – (01/22/2024)

- Delayed purchase financing is eligible when a property was purchased by a borrower for cash within 180 days of the loan application.
  - The transaction is considered cash out refinance for pricing and eligibility. Cash-in-hand limits do not apply except for Foreign Nationals.
    - Foreign Nationals are subject to max cash-in-hand limits per the Foreign National matrix.
  - 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 – (05/01/2025)

Primary/Second Home:

- For all refinances, value will be based on lesser of lowest list price in prior 12 months or appraised value.
- For cashout refinances, properties previously listed for sale must be seasoned at least six (6) months from the listing contract expiration date to the loan application date.

Investment Properties:

- For all refinances, value will be based on lesser of lowest list price in prior 12 months or appraised value.
- For cashout refinances, a listing expiration of less than six (6) months is permitted with a minimum prepayment penalty of three (3) years. If a property is listed for sale, the listing must be cancelled prior to the note date.

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 – (09/02/2024)

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 the 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]).

Non-Arm's length transactions are subject to all the following requirements:

- Renter(s) purchasing from landlord.
    - 12 months of cancelled checks to prove timely payments are required.
    - A verification of rent (VOR) is not acceptable.
- Purchase between family members.
    - Gift of Equity requires a gift letter, and the equity gift credit is to be shown on the CD.
        - Must provide a 12-month mortgage history on the existing mortgage securing the subject property, confirming the Family Sale is not a foreclosure bailout. Primary Residence Only.
- Borrower to provide verification of earnest money deposit.
- Employer-to-employee sales or transfers are not allowed (e.g., newly constructed properties).
- Property trade between buyers and sellers is not allowed.
- Commission earned by buyer/borrower cannot be used for down payment or monthly PITIA reserves.

5.4 - INTERESTED PARTY CONTRIBUTIONS (SELLER CONCESSIONS) – (05/01/2025)

Owner Occupied and Second Home

- Maximum contribution:
    - 6% for LTVs > 75%
    - 9% for LTVs ≤ 75%

Non-Owner Occupied

- May not exceed 6%

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

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

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

5.5 - ESCROWS - IMPOUND ACCOUNTS – (05/01/2025)

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.

5.5.1 – NON-HPML CONSUMER PURPOSE LOANS – (05/01/2025)

- Escrow waivers are not allowed on HPML loans.
- Escrow funds/impound accounts can be waived and subject to the following requirements:
  - LTV is less or equal to 80%
  - Escrow waiver is subject to an LLPA adjustment, see rate sheet for program specific adjustments.
- Flood insurance escrow account:
  - The Escrow account for flood insurance premium is required for all loans secured by residential improved real estate located in a flood zone. See Section 1.5 – Flood Insurance for flood insurance requirement.

5.5.2 – BUSINESS PURPOSE LOANS – (05/01/2025)

- Escrow waivers are not allowed for the following programs:
  - DSCR Cross Collateral.
  - Foreign National DSCR.
- Escrow waivers are allowed for the following requirements:
  - LTV less than or equal to 80%
  - DSCR ratios must be equal or greater than 1
  - Standard DSCR
  - Mixed Use or 5+ units
- Flood insurance escrow account may be waived.

5.6 - SECONDARY FINANCING

- Secondary financing must be institutional and included in CLTV.
- Private-party secondary financing is not allowed.
- 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 – (05/01/25)

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 any curtailment or the entire outstanding principal balance during the prepay period. The charge applies to loans that are paid off due to sale or refinance. A fixed percentage of 5% is only available on DSCR 5-8 Units or 2-8 Mixed Use.

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

The following restrictions apply:

- Prepayment penalties are not allowed in KS, MN, NM, OH and RI.
- 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 2025 the base figure amount is $319,777.

SECTION 6 - CREDIT

6.1 – CREDIT REPORTS – (01/22/24)

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.

6.2 - 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.

6.3 - FRAUD REPORT – (02/26/2024)

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.

6.3.1 - REQUIREMENTS – (05/01/25)

- Transaction participants must be included in the fraud report as follows: Borrowers/Guarantors, Property, Sellers, Brokers, Loan Officers, Appraisers, Real Estate Agents, Settlement Agents.
  - Only members(s)/manager(s) of an entity providing a guaranty are required to be included in the fraud report.
- An industry recognized fraud and data vendor must be used (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 a signed attestation. The attestation must address each “high” alert, or “red flag” noted in the fraud report. The underwriter may request additional documentation to address high fraud risk.
- Fraud reports for loans secured by multiple properties (Cross Collateral) do not need to reference every property, all other requirements apply.
- Fraud reports must include the following exclusionary lists:
  - HUD’s Limited Denial Participation (LDP)
  - HUD’s General Service Administration (GSA)

  - Federal Housing Finance Agency (FHFA) Suspended Counterparty Program
  - Freddie Mac Exclusionary List

6.3.2 – OFAC SEARCH – (09/02/24)

The Office of Foreign Assets Control (OFAC) of the US Department of Treasury administers and enforces economic and trade sanctions based on US foreign policy and national security goals against individuals and foreign countries. A clear OFAC search for individuals and foreign countries is required.

6.3.2A – INDIVIDUALS – (09/02/24)

Individuals identified on OFAC's SDN list are not eligible. All individuals involved in the transaction must be screened through exclusionary lists and must be cleared through OFAC's SDN list, regardless of citizenship status.

Requirements:

- A search for the Specially Designated Nationals & Blocked Persons list must be completed via the US Department of Treasury: http://sanctionssearch.ofac.treas.gov.
- Individuals to be included in the OFAC search: Borrowers/Guarantors, Property Sellers, Brokers, Loan Officers, Appraisers, Real Estate Agents, Settlement Agents.
- When the borrower is an entity, Guarantor(s) and all member(s)/manager(s) of the entity must be included in the OFAC search.

6.3.2B – FOREIGN COUNTIES

Borrower(s)/Guarantor(s) from OFAC sanctioned countries are not eligible. The Borrower(s) / Guarantor(s) are defined as individuals signing the loan application.

Requirements:

- Borrowers/Guarantors who are Foreign Nationals must be screened against the OFAC sanctioned counties list. Search to be completed via the US Department of Treasury Office of Foreign Asset Control: http://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx
  - Not applicable for Non-Permanent Resident Aliens and Permanent Resident Aliens.
- If the borrower is an entity, members(s)/manager(s) who are not Guarantors do not have to be screened against the OFAC sanctioned country list.

6.4 - 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 is extended, borrowers must provide documentation on the current balance and payment. If no credit was extended, the 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.

6.5 - HOUSING HISTORY – (05/01/25)

- Housing payment mortgage history is required for all Real Estate Owned, evidencing the payment activity for the most recent 12-months.
- For refinances, the most recent 12-month housing payment history is required for all mortgages secured against the subject property.
- All payment history will be used for program eligibility, see program matrix for housing history requirements.
- Housing payments must be paid current as of 45 days of the loan application date.
- Any REO listed on the application owned free & clear requires a Property Profile Report or similar document.
    - Property taxes, all insurance, and homeowner's association dues (if applicable) are to be verified and included in DTI.
- Borrowers who sold a primary residence within the past six (6) months, currently rent-free, and purchasing a new primary residence are allowed.
    - 12-month mortgage history required on previous primary residence.
- Borrowers who are currently renting a residence, a most recent 12-month rental history is required reflecting paid as agreed.
- If income is being used from a non-subject REO, a housing history is required.
    - Applies to properties vested to an individual or entity.
    - Mortgage liability must be factored into the net rental income used for qualifications.

DSCR transactions housing history. See Section 8.13.5 – Housing History DSCR for more information.

Cross Collateral transactions housing history. Refer to Cross Collateral matrix – Housing History for more information.

6.5.1 - MORTGAGE VERIFICATION – (01/22/24)

6.5.1A – MORTGAGE(S) ON CREDIT REPORT – (01/22/24)

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

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

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

DSCR transactions, any mortgage appearing on the credit report will be included in the housing history eligibility.

6.5.1B – MORTGAGE(S) NOT REPORTING ON CREDIT REPORT – (09/02/24)

The underwriter must review documentation for the previous 12 months to determine the payment status of all mortgage accounts not reporting on the credit report.

Verification of Mortgage (VOM) form must be completed by Mortgage Servicer for at least 12 months, and it must ensure that the verification includes:

  - The unpaid principal balance of the mortgage and monthly payment amount.
  - The present status of the mortgage, such as current, 30 days' delinquent, etc.; and
  - The borrower's payment history.
- When a servicer fails to provide all the requested information or Private mortgages, the underwriter must rely on information provided through the borrower's canceled checks. The checks must:
  - Be legible.
  - Identify the mortgage servicer or mortgage holder as the payee,
  - Indicate the servicer or holder endorsed the check for deposit,
  - Indicate the date the servicer or holder deposited the checks, and
  - A year-end mortgage statement.
- Payment made in cash is not eligible.

If the subject transaction is a refinance, mortgage payoff statement is required from the creditor/servicer:

- A payoff statement that reflects late fees, deferred balance, or delinquent interest greater than 30 days are subject to housing history and/or credit event criteria. Transaction is to be considered cashout.

DSCR transactions, mortgages not appearing on the credit report other than the primary residence or subject property, can be excluded from determining housing history eligibility.

6.5.2 - 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.).

6.5.3 - LIVING RENT-FREE OR LESS THAN 12 MONTHS VERFIED – (09/02/24)

Borrowers who do not have a complete 12-month housing history are subject to the following restrictions:

- Primary residence only
- Payment Shock is not considered.
- VOR/VOM must be obtained for all month's available reflecting paid as agreed.
- A "Rent-Free" letter from the owner or leaseholder of borrower's current resident verifying borrower is living rent-free is required and provides the relationship between the borrower and property owner. Thoroughly verifying the property profile to ensure the letter is from the correct individual.
- DTI may not exceed 43%
- LTV may not exceed 80%.

6.5.4 – BALLOON NOTES WITH MATURITY DEFAULT (09/02/2024)

Notes with a balloon feature with an expired maturity date exceeding 30 days require an extension to avoid being counted as delinquent (e.g., delinquent 31 days is 1x30 late, delinquent 61 days is 1x60 late, etc.).

6.5.5 - 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.

6.6 - CONSUMER CREDIT

6.6.1 - 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.

6.6.2 - 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.

6.6.3 - 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.

6.6.4 - 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.

6.6.5 - 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.

6.6.6 – SOLAR PANELS – (09/02/2024)

Installment debt from financed or leased payments associated with solar panels are to be included in the debt-to-income ratio.

6.6.7 - 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.

6.6.8 - TIMESHARES

Timeshare obligations will be treated as a consumer installment loan.

6.6.9 - 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 reflect the business expense deduction.
- A 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.

6.6 .10 - 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.

6.6.11 - 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.

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

6.6.13 - 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.

6.6.14 - JUDGMENT OR LIENS

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

6.6.15 - INCOME TAX LIENS

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

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

6.6.16 - DISPUTED ACCOUNTS – (01/22/24)

- Revolving account: See Section 6.5.5 – Revolving Debt.
- Installment account: See Section 6.5.1 – Installment Debt.

- Mortgage account: Housing history restriction apply.
- Collection/Charge-off account: See Section 6.5.12 – Consumer Credit Charge-Offs and Collections.

6.7 - 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.

6.8 - 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.

6.9 - SHORT SALE / DEED-IN-LIEU SEASONING

Short Sales and Deeds-in-Lieu of Foreclosures must be completed for 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.

6.10 - FORBEARANCE, MODIFICATION, OR DEFERRALS (05/01/2025)

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 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 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.

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

6.12 - TRADELINES

6.12.1 - STANDARD TRADELINES – (09/02/2024)

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.

Foreign National DSCR with U.S. Credit: 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 of at least eight (8) years.
- Tradelines with recent serious adverse history are not acceptable.
- Student loans can be counted in credit depth as long as they are in repayment and not being deferred.

The following are not acceptable to be counted as tradelines:

- "non-traditional" credit as defined by Fannie Mae®
- 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

6.13 - OBLIGATIONS NOT APPEARING ON CREDIT REPORT

6.13.1 - 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.

6.13.2 - 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 (09/02/2024)

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

Large deposits must be sourced as follows:

- If personal accounts are used for assets, large deposits defined as any single deposit that represents greater than 100% of the borrower's qualifying monthly income are to be documented for a purchase transaction.
- If business accounts are used for assets, the following applies:
  - Business account used for income: Large deposits greater than 100% of monthly business revenue must be documented for a purchase transaction.
  - Business accounts are not used for income: Large deposits do not need to be sourced.
- Large deposits do not need to be sourced on DSCR loans.

7.2 - ASSET DOCUMENTATION – (09/02/24)

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
  - Assets held in foreign accounts must be translated to English and verified in US Dollar equivalency at the current exchange rate via either http://www.xe.com or the Wall Street Journal conversion table.
- Assets held in a Trust require the following:
  - Obtain written documentation (e.g., bank statements) of the value of the trust account from either the trust manager or the trustee, and
  - Document the conditions under which the borrower has access to the funds.
- Accounts verified using a third-party vendor participating in the Fannie Mae Day 1 Certainty® process.
- Verification of Deposit completed by the verifying financial institution (Fannie Mae® Form 1006).
- Borrowed funds secured by an asset are an acceptable source of funds for the down payment, closing costs, and reserves, since borrowed funds secured by an asset represent a return of equity. Assets that may be used to secure funds include automobiles, artwork, collectibles, real estate, or financial assets, such as savings accounts, certificates of deposit, stocks, bonds, and 401(k) accounts. When qualifying the borrower, monthly payments on loans secured by non-financial assets must be included in the debt-to-income calculation for non-DSCR transactions. When loans are secured by the borrower's financial assets, monthly payments for the loan do not have to be considered as long-term debt. See Section 6.6.11 for complete details.
- 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 assets. For downpayment and closing costs, if funds haven't been liquidated, confirm the borrower can access/withdraw funds.
- Business accounts may be considered for assets.

- Consumer Purpose Loans: The amount of business assets that may be utilized is limited to the borrower's ownership percentage in the business.
- Business Purpose Loans:
  - Assets held in the name of the vested entity: 100% of the assets may be used.
  - Assets not held in the name of the vested entity: 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.
- Non-regulated Financial Assets
  - Crypto Currency - Bitcoin and Ethereum are eligible sources of funds for the down payment, closing costs and reserves. Crypto is not an eligible liquid asset for asset utilization/depletion.
    - Down payment and closing costs: currency must be liquidated and deposited into an established US bank account.
    - Reserves: Loan file must include a statement meeting the requirements under account statements to document ownership of the crypto holdings. Current valuation, within 30 days of the loan Note date, can only be determined from the Coinbase exchange. 60% of the current valuation will be considered eligible funds.

The following are not acceptable as asset documentation:

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

7.3 – RESERVES – (01/22/24)

- 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 may be used to meet reserve requirements. See Matrix for restrictions.

- 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 – (05/01/2025)

Refer to the Product Matrix for eligibility. If the product allows gift funds to be used, then the below requirements must be met.

- Purchase transactions or Rate/Term Refinance.
- Gifts can be used to pay off debt.
- Gifts that require repayment are not eligible for source of down payment.
- Gift of Equity is permitted for Primary Residence and must be reflected on the final closing disclosure as a Seller credit.

Full Doc and Expanded Doc:

- LTV/CLTV of 80% or Less:
  - 100% of gift funds are allowed on owner-occupied transactions.
  - Owner-occupied, gift funds can be used to meet reserves' requirements. The gift funds allocation for reserves requirement must be deposited into borrower's account and provide proof of funds. Borrower(s) must meet residual income requirements.
  - Second, Home and Investment properties, a minimum of 10% of down payment must be made by the borrower from their own funds. Gift funds cannot be counted towards reserves.
- LTV/CLTV greater than 80%:
  - A 5% down payment has been made by the borrower from their own funds.
  - Gift funds cannot be counted towards reserves.

DSCR:

- Gift funds permitted after a minimum 10% borrower contribution.
- Gift funds cannot be counted towards reserves.

Mixed Use/5+ Units and Foreign National:

- Gift funds are not allowed on DSCR 5-8 Units, 2-8 Mixed Use and Foreign National.
- Gift funds cannot be counted towards reserves.

Cross Collateral:

- Refer to Cross Collateral matrix.

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 – (01/22/24)

The underwriter must verify that sufficient funds to cover the gift are either in the donor's account (such as a checking, savings 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 slips and the borrower's deposit slip,
- evidence of the electronic transfer of funds from the donor's account to the borrower's account or to the closing agent.
- 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 an electronic transfer, certified check, a cashier's check, or other official check.

- Gift of Equity allowed for Primary Residence or Second Homes. Must meet all other guidelines for Gift Funds.

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 of two (2) year employment history is required to be documented on the loan application (1003). When the borrower has less than a two-year history of employment, the underwriter should document positive factors to offset the shorter employment history, such as education or training.
- Any gaps in employment that span one or more months must be explained.
- Salary/Wage Earner – income derived from employment at a business. Compensation may be based upon a salary, hourly wage, bonus, commission, or overtime.
- Any borrower with a 25% or greater ownership interest in a business/entity or is paid using IRS form 1099 is considered self-employed.
- The following are common business structures:
    - Sole proprietorship
    - Limit Liability Company (LLC)
    - Partnerships
    - S-Corporation
    - Corporation

- If any borrower is no longer employed in the position disclosed on the Fannie Mae Form 1003 at the time the loan is scheduled to be closed, 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 – (09/02/2024)

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 include 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 qualifying monthly mortgage payment includes the following:

- Fixed Rate: Note Rate amortized over the total term
    - Interest Only: Note amortized over the remaining term after the expiration of the interest only period.
- ARMs: Qualifying rate is the higher of the fully indexed rate or note rate.
    - Interest Only: Qualifying rate amortized over the remaining term after the expiration of the interest only period.

Monthly mortgage-related obligations include real estate taxes, property insurance, any other insurance, and any association dues.

- Calculating Real Estate Tax Payment for subject property:
  - For purchase and construction-related transactions, the underwriter must use a reasonable estimate of the real estate taxes based on the value of the land and the total of all new and existing improvements.
    - State of California exception: Use 1.25% of the purchase price to determine the monthly tax payment.
  - For refinance transactions, use the current tax assessment.

8.3 - RESIDUAL INCOME – (01/22/24)

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 Doc – Primary – DTI > 50%	80%	$3,500
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.

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 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 – (09/02/2024)

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.

The offer or contract cannot be for employment by a family member or interested party to the transaction.

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 is not permissible.

8.5.5H - FOSTER CARE INCOME

Income received from a state or county sponsored organization 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.
- The 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's proof of current receipt.
  - Income will be averaged based upon withdrawals over the past 24 months.

8.5.5N - RENTAL INCOME – (05/01/2025)

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
- Short Term Rental – Purchase Transaction:
    - 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.
    - Any of the following methods may be used to determine gross monthly rental income:
        - Short-term rental (STR) analysis form or 1007/1025 may be used. The analysis must include the following:
            - Provide the source of the data used to complete the STR analysis.
            - Include comparable STR properties, focusing on room count, gross living area (GLA), location, and market appeal.
            - Include daily rental rate and occupancy percentage.
            - Factor seasonality and vacancy into the analysis.
            - Must be completed by a licensed appraiser.
        - AIRDNA (www.Airdna.co) Rentalizer/Property Earning Potential Report accessed using the Explore Short-Term Rental Data, must meet the following requirements:
            - Only allowed for purchase transactions.
            - Gross rents equal the revenue projection from the Property Earning Potential Report, less the 20% extraordinary expense factor.
            - Revenue projection equals the average daily rental rate times the occupancy rate.
            - The forecast period must cover 12-months and dated 90-days within the Note date.
            - Maximum occupancy limited to 2 individuals per bedroom.
            - Must have three (3) comparable properties similar in size, room count, amenities, availability, and occupancy.
            - Market Score or Sub-Market Score must be 60 or greater as reflected on the Property Earning Potential Report.
- Short Term Rental – Refinance Transactions:
    - Rental income must be documented with the borrower's most recent signed federal income tax return that includes Schedule E.
- 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.
- Borrowers must be employed at the same company that issued the RSUs.
- Employer must be a publicly traded entity (e.g., a Fortune 500 company).
- Non-vested restricted stock is not an acceptable source of income or reserves.
- Vested RSUs may not be considered as qualifying income if they are also used for down payment, closing costs, and/or reserves.

The following documentation is required:

- Evidence that stock is publicly traded.
- The most recent vesting schedule or issuance agreement 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 recently 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 not allowed regardless of percentage of company ownership.
- Income from borrowers who are wage earners in the industry is allowed.

8.6 - EXPANDED DOCUMENT - BANK STATEMENTS

Personal bank statements or business bank statements may be used to document self-employment 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 – (09/02/24)

- See the Broker First Funding (BFF) Matrices for maximum LTV and DTI.
- Borrowers must be self-employed for at least two (2) years. The employment section of the URLA must be completed with a minimum of two (2) years self-employment history.
- The business being used to source income must be in existence for a minimum of two (2) years as evidenced by one of the following:
  - CPA Letter, or
  - Business License, or
  - Bank statement from 24 or more months prior to note date reflecting activity, or
  - Other reasonable evidence of business activity.
- Minimum credit score is 640.
- Nonprofit Entity not eligible
- Income and expense documentation must be prepared or validated by an acceptable 3rd party source with knowledge of the borrower's business.
- 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 – (05/01/25)

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 100% 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 (to support the borrower does maintain separate account(s)). If business bank statements cannot be provided to evidence a separate business account, then a 10% expense factor may be applied as long as there is no indication that the personal assets are a co-mingle account. • 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**

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

BUSINESS AND CO-MINGLED BANK STATEMENT REVIEW

A business bank statement used for ongoing operations of the business must reflect the name of the business as completed on the URLA or loan application.

- Verify that the borrower has ownership of at least 25% of the business by providing one of the following:
  - CPA letter, Tax Preparer letter, operating agreement, or equivalent; reflecting the borrower's ownership percentage.
- Net income from the analysis of the bank statements is multiplied by the borrower's ownership percentage to determine the borrower's qualifying income.

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

- Verify that the borrower has 100% ownership of the business by providing one of the following:
  - CPA letter, Tax Preparer letter, operating agreement, or equivalent; reflecting the borrower's ownership percentage.
- The borrower must be the sole owner of the business listed on the URLA or loan application.
- Borrower and spouse with combined 100% ownership of the account are eligible borrower must be sole owner of the business (borrower and spouse with combined 100% ownership eligible).

Standard Expense Ratio – (50%)

Documentation Requirements

- A standard 50% expense factor will be applied to the total of eligible deposits.
- 24 or 12 months of consecutive business bank statements, the most recent statement dated within 90 days of the note date.
- 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/accountant, IRS Enrolled Agent, tax preparer or P&L may be used to determine qualifying income.

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

3rd Party Prepared 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;
- Business expense statement letter to include:
    - Name of the business
    - Business expense as a percentage of the gross annual sales/revenue
    - Prepared or reviewed by a 3rd party with knowledge of the business (e.g. CPA/accountant, IRS Enrolled Agent, or tax preparer)
    - Signed by the 3rd party preparer/reviewer.

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.
- Signed by the 3rd party preparer/reviewer.

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).
- When analyzing the P&L Statement, the following may be added back to the applicant's income calculation:
  - Depreciation
  - Depletion
  - Amortization/casualty loss

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 (05/01/2025)

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 one (1) 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.
  - If the transaction type is a purchase of an investment property, and income from the subject property is considered in the underwriting, 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.
- Short Term Rental – Purchase Transactions:
  - 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.
  - Any of the following methods may be used to determine gross monthly rental income:
    - Short term rental (STR) analysis form or 1007/1025 may be used. The analysis must include the following:
      - Provide the source of the data used to complete the STR analysis.
      - Include comparable STR properties, focusing on room count, gross living area (GLA), location, and market appeal.
      - Include daily rental rate and occupancy percentage.
      - Factor seasonality and vacancy into the analysis.
      - Must be completed by a licensed appraiser.

- AIRDNA (www.Airdna.co) Rentalizer/Property Earning Potential Report accessed using the Explore Short-Term Rental Data, must meet the following requirements:
  - Only allowed for purchase transaction.
  - Gross rents equal the revenue projection from the Property Earning Potential Report less the 20% extraordinary expense factor.
  - Revenue projection equals the average daily rental rate times the occupancy rate.
  - Forecast period must cover 12-months and dated 90-days within the Note date.
  - Maximum occupancy limited to 2 individual per bedroom.
  - Must have three (3) comparable properties similar in size, room count, amenities, availability, and occupancy.
  - Market score or Sub-Market Score must be 60 or greater as reflected on the Property Earning Potential Report.

- Short Term Rental – Refinance Transactions
  - 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.
    - 80% 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 –PROFIT & LOSS STATEMENT ONLY – (09/22/24)

Permitted for self-employed borrowers with a minimum of 25% ownership of the business. The Profit & Loss Statement (P&L) must be prepared by a 3rd party Certified Public Accountant (CPA), an IRS Enrolled Agent (EA), or a CTEC registered tax preparer. PTIN tax preparers are not allowed.

Tax returns and 4506-C are not required for the P&L Only program.

Required Documentation:

- 24 or 12-month CPA, EA, or CTEC prepared a P&L Statement representing total business sales and expenses for the time period covered by the P&L Statement.
- Preparer to provide a signed document with the following:
  - Confirmation business has been in existence for a minimum of two (2) years
  - Indicate borrower's ownership percentage of the business.
  - Confirmation the preparer completed or filed the most recent business tax return.
- Current/active state CPA license number as verified by license or screenshot from state licensing authority.
- Current/ active IRS Enrolled Agent (EA) certification from IRS (e.g., screenshot of IRS web site).
- Current/active CTEC certification from California (e.g., screenshot of CTEC web site).
- State Attorney license number as verified by license or screenshot from state licensing authority.

Qualifying Income:

- Net income from the P&L Statement divided by the time period covered (24 or 12-months) multiplied by the borrower's ownership percentage.
- Expenses on the P&L must be reasonable for the industry, BFF reserves the right to request additional information.

<u>The following may be added back to the qualifying income calculation</u>:

- Depreciation.
- Depletion.
- Amortization/Casualty loss.

<u>Additionally, Restrictions for LTV/CLTV greater than 80%</u>:

- Purchase transaction only
- Primary Residence only
- Minimum FICO 720
- SFR/Detached PUD only.
- Maximum Loan Amount $1.5MM
- A minimum of two (2) months business bank statements covering the most recent 2-month period. If the bank statements do not support the P&L, continuous bank statements may be added until it is met.

8.9 - EXPANDED DOC - IRS FORM 1099 – (09/02/2024)

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

FlexPoint

8.10 - EXPANDED DOC – WRITTEN VERIFICATION OF EMPLOYMENT- (05/01/2025)

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

- 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 the existence of the business.
- Primary Residence Only
- Minimum credit score 680
- 24-month 0x30 housing history required.
- Maximum Loan Amount $1.5M, Max LTV 80% Purchase or R/T refinance and 70% 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 – (05/01/2025)

- Minimum score 680 credit score
- Loan Amount <= $1.5MM – Maximum LTV 80% Purchase or R/T and 70% Cash-Out.
- Loan Amount >$1.5MM - $2MM – Maximum LTV 70% Purchase or R/T and 65% Cash-Out
- Non-occupant co-borrower not allowed.
- Gift funds are allowed towards the down payment and closing costs only. Gift funds cannot be used toward the income calculation for Asset Utilization.
- Eligible assets divided by 60 to determine a monthly income.
- Maximum Debt-Income-Ratio 45%

8.11.2 - ASSET UTILIZATION QUALIFYING METHOD – (05/01/2025)

Debt Ratio Calculation: Qualified assets with utilization draw schedule of 5 years (Qualified Assets divided by 60).

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 the 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 – QUALIFYING ASSETS – (05/01/2025)

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.
- 100% of cash surrender value of life insurance less any loans may be considered for assets.
- 80% 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:

- Apply appropriate percentages for the assets held as noted above.
- Trustee statement or trust agreement must be provided verifying terms of the trust for the following:
  - 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.

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) – (01/22/24)

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.

8.12.1 – EXPERIENCED INVESTOR – (01/22/24)

- 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 Fannie Mae 1003 loan application, or of the property securing the loan.
  - Provide a property profile report, or
  - Other 3rd party documentation.

8.12.2 – FIRST-TIME INVESTOR AND/OR FIRST-TIME HOMEBUYER – (05/01/25)

First-Time Investor is a borrower not meeting the Experienced Investor definition, but who currently owns a primary residence for at least one (1) year.

Ownership history can be documented with the following:

- Mortgage history on credit report
- Property profile report
- Other 3rd party documentation (e.g., Fraud Report, Settlement Statement, Closing Disclosure)

First Time Investors and or First Time Homebuyer are eligible subject to the following restrictions:

- Minimum credit score: 720.
- DSCR > 1
- Maximum 70% LTV/CLTV
- 1-Unit or Warrantable Condo only.
- Maximum Loan Amount $750K and Minimum Loan Amount $100K
- If reported, no mortgage late or rent payments during the past twenty-four (24) months and no credit event in the past thirty-six (36) months.

- Borrowers living rent-free are not eligible.
- Cash-out transactions are not eligible.
- Short-Term Rental and Leasehold are not allowed.
- Interest-Only and 40-Year Term are not allowed.
- Motivation letter required for purchasing investment and not owing a primary.

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 – (05/01/25)

- 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. Monthly gross rent is to be evaluated for each unit individually.
    - If using the lower of the actual lease amount or estimated market rent, nothing further is required.
    - If using a higher 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. If the actual rent exceeds the estimated market rent by more than 120%, the rents are capped at 120%.
    - If using a higher estimated market rent from 1007/1025, it must be within 120% of the lease amount. If the estimated market rent exceeds the lease amount by more than 120%, the estimated market rent is capped at 120%.
  - A vacant or unleased property is allowed without LTV restriction.
  - Units subject to rent control or housing subsidy must utilize current contractual rent to calculate DSCR.

- Refinance Transactions
  - Required Documentation:
    - Original appraisal report reflecting tenant-occupied, and
    - FNMA Form 1007 or FHLMC 1025 reflecting long term market rents, and

- Executed lease agreement.
  - Lease that has converted to month-to-month are allowed.
  - If lease agreement is not provided, LTV/CLTV is limited to lesser of 70% or per DSCR/FICO/Loan balance matrix.
- A vacant property as indicated on the appraisal is allowed subject to the following:
  - LTV/CLTV limits: Lesser of 70%, or the LTV/CLTV based upon the DSCR/FICO/Loan balance matrix.
- Monthly Gross Rents are determined by using the actual lease amount or estimated market rent. Monthly gross rent is to be evaluated for each unit individually.
  - If using the lower of the actual lease amount or estimated market rent, nothing further is required.
  - If using a higher 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 1007 or 1025. If the actual rent exceeds the estimated market rent by more than 120%, the rents are capped at 120%.
  - If using a higher estimated market rent from 1007/1025, it must be within 120% of the lease amount. If the estimated market rent exceeds the lease amount by more than 120%, the estimated market rent is capped at 120%.
- Units subject to rent control or housing subsidy must utilize current contractual rent to calculate DSCR.

- 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 – (05/01/25)

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

- Short Term Rental Income – Purchase and Refinance Transactions
  - LTV/CLTV limits:
    - Purchase: Lesser of 75%, or the LTV/CLTV based upon the DSCR/FICO/Loan balance matrix.
    - Refinance: Lesser of 70%, or the LTV/CLTV based upon the DSCR/FICO/Loan balance matrix.
    - Condo Hotel: Refer to matrix for LTV/CLTV limits.

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

- When short-term rental income is documented using multiple sources, the lowest source of monthly income is to be utilized for calculating DSCR.
- Any of the following methods may be used to determine gross monthly rental income:
  - Short-term rental (STR) analysis form or 1007/1025 may be used. The analysis must include the following:
    - Provide the source of the data used to complete the STR analysis.
    - Include comparable STR properties, focusing on room count, gross living area (GLA), location, and market appeal.
    - Include daily rental rate and occupancy percentage.
    - Factor seasonality and vacancy into the analysis.
    - Must be completed by a licensed appraiser.
  - 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 evidenced short term rental deposits. The borrower must provide rental records for the subject property to support monthly deposits.
  - AIRDNA (www.Airdna.co) Rentalizer and Overview reports, accessed using the Explore Short-Term Rental Data, must meet the following requirements:
    - Rentalizer (Property Earning Potential)
      - Only allowed for purchase transactions.
      - The Gross Rents equal the revenue projection from the Rentalizer Report.
        a. The gross rents are subject to the application of the 20% extraordinary expense factor.

  b. Revenue projection equals the average daily rental rate times the occupancy rate.
  - The forecast Period must cover 12-months and dated 90-days within the Note date.
  - Must have three (3) comparable properties similar in size, room count, amenities, availability, and occupancy.
- Maximum occupancy limited to 2 individuals per bedroom.
- Market Score or Sub-Market Score must be 60 or greater as reflected on the Property Earning Potential Report.

- Foreign National Short-Term rentals – Refer to the Foreign National matrix.
- Cross Collateral Short-Term rentals – Refer to the Cross Collateral matrix.

8.13.4 - DEBT SERVICE COVERGE RATIO (DSCR) – (09/02/2024)

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 Section 2.1 Qualifying Payment section for further guidance regarding Qualifying Payments.

Calculating Real Estate Tax Payment for subject property:

- For purchase and construction-related transactions, the underwriter must use a reasonable estimate of the real estate taxes based on the value of the land and the total of all new and existing improvements.
  - State of California exception: Use 1.25% of the purchase price to determine the monthly tax payment.
- For refinance transactions, use the current tax assessment.

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 - HOUSING HISTORY DSCR – (09/02/24)

Housing history for the DSCR Doc type is required for the borrower's primary residence and the subject property if a refinance transaction. Any mortgage tradeline reported on the credit report for any property owned by the borrower needs to be included in the housing history eligibility.

The documentation requirements under Section 6.5 Housing History should be followed for verification.

- An updated mortgage history, defined as paid current as of 45 days of the loan application date, is only needed for the primary residence and subject property.
- For any non-subject property, non-primary mortgages not reporting to the credit bureau, additional housing history is not required.
- For refinance transactions of the subject property, when the existing financing is a Paid In Kind (PIK) loan, a copy of the note must be provided in the credit file to determine required payments. Notes allowing interest to accumulate during the term of the loan are eligible, however, all refinance transactions are treated as cashout.
- First time homebuyers (FTHB) living with a spouse are eligible with the following:
- Spouse owns the primary residence
    - Evidence spouse is on title, and
    - Proof of 12- month payment history, or evidence the primary residence is owned free & clear.

8.13.6 - RESTRICTIONS – (05/01/25)

- See the Broker First Funding (BFF) Matrices for the maximum LTV/CLTV.
- Minimum credit score of 640.
- If the loan amount < $150K, the minimum DSCR is 1.25
- No rural properties
- Maximum 2-acres.
- Gift funds permitted after a minimum 10% borrower contribution, documented per section 7.2 Asset Documentation.
- Neither the borrower(s) nor the borrower's immediate family shall at any time occupy the property.
- Cash-out on an investment property where loan proceeds are used for consumer purposes.
- When the subject property is encumbered by a blank/cross collateralized loan, the transaction is considered cashout. Copy of the note will be required to verify the payoff/release terms.

8.13.7 - 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.

8.13.8 - 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 – (05/01/25)

- Minimum DSCR >= 1.00
- DSCR = Eligible monthly rents/PITIA (Loans with an interest only feature may use the PITIA payment)
- 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.
  - Vacant residential units must be actively marketed for rent. Provide screenshots of listing or other documentation.
  - Vacant commercial space not allowed.
- Reduce qualifying rents by any management fee reflected on appraisal report.
- Income from commercial space must not exceed 49.99% of the total property income.
- Short-term rental use/income not eligible.
- Copies of any existing leases must be provided (Purchase and Refinance transactions).
  - If the lease has been converted to month-to-month, then provide the most recent two (2) months proof of receipt to evidence of continuance of lease.
- Neither the borrower(s) nor the borrower's immediate family shall at any time occupy the property.

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 – ELIGIBLE PROPERTY – (05/01/25)

- Residential 5-8 Unit Buildings.
  - Residential unit(s) not permitted to be occupied by the borrower or the borrower's immediate family.
  - Residential Unleased Units
    - Maximum 1-unit on 2–3-unit property
    - Maximum 2-units on 4+ unit property
  - Maximum 2-acres

- Mixed use 2 – 8 Units
  - Mixed use property consists of residential and commercial units. The number of commercial units is limited by the total number of units in the building, as follows:
    - 2-3 Total Units: Max 1 commercial Unit
    - 4-5 Total Units: Max 2 commercial Units
    - 6-8 Total Units: Max 3 commercial Units
  - Vacant commercial space not allowed.
  - Commercial space must not exceed 49.99% of the total building area.
  - Commercial unit(s) may be occupied by the borrower's business.
  - Commercial usage limited to Retail/Office/Restaurant.
  - Residential Unleased Units in a Mixed-Use Building.
    - 2-3 Total Units: Maximum 1 unleased residential unit
    - 4+ Total Units: Maximum 2 unleased residential units
  - Residential unit(s) not permitted to be occupied by the borrower or the borrower's immediate family.
  - Maximum 2-acres

8.14.4 - PROPERTY CONDITION – (01/22/24)

- No Fair or poor ratings.
- No environmental issues (Storage or use of hazardous material i.e., Dry Cleaners, Laundromat, chemical storage, fuel station, auto body repair).
- 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.

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 – CROSS COLLATERAL

The term cross collateral loan refers to a single mortgage that covers three (3) or more properties. The properties are held together as collateral on the mortgage, but the individual pieces of real estate may be sold without extinguishing the entire mortgage. Traditional mortgages typically have a "due-on-sale clause," which stipulates that if property secured by the mortgage is sold, the entire outstanding mortgage debt must be paid in full immediately. With a cross collateral mortgage, a partial release clause allows the sale of portions of the secured property and corresponding partial repayment of the loan. This is done to facilitate purchases and sales of multiple units of property with the convenience of a single mortgage.

Refer to Cross Collateral for more information.

SECTION 10 - PROPERTY ELIGIBILITY

10.1 - APPRAISALS

10.1.1 - 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).

10.1.2 - 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.

10.1.2A – SUPERVISORY APPRAISER - (09/02/2024)

If a supervisory appraiser is used, the supervisory appraiser does not need to physically inspect the subject property or comparable, but must sign the right side of the report and certify that they:

- Direct supervised the appraiser that prepared the appraisal report, and
- Reviewed the appraisal report, and
- Agree with the statements and conclusions of the appraiser, and
- Take full responsibility for the appraisal report.

When an appraisal is completed by a trainee, a supervisory appraiser with a certified level license is required to sign the report.

10.1.2B – APPRAISAL TRAINEE – (09/02/2024)

A trainee may perform a significant amount of the appraisal (or the entire appraisal if they are qualified to do so) and 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, and
- The right side of the appraiser certification is signed by that supervisory appraiser, and
- It is acceptable under state law.

If the jurisdiction does not provide license numbers for trainees, the term Trainee should be entered in the other field in the Appraiser Certification section.

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

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

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.

10.1.4 - 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.

10.1.5 - APPRAISAL EVALUATION

10.1.5A – 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.

10.1.5B – EXISTING CONSTRUCTION – (01/22/24)

- 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 closes.
- Permanent and Functioning Heat Source – A permanent heat source is required except for properties located in geographic areas where it is typical not to have heat source and has no adverse effect on marketability.

10.1.5C – 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.

10.1.5D – 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.

10.1.5E – ACCESSORY UNITS – (05/01/25)

An Accessory Dwelling Unit (ADU) is an additional living area independent of the primary dwelling that may have been added to, created within, or detached from the primary dwelling. Examples of an ADU include, but are not limited to, a living area over the garage, a walk-out basement, or a small addition to the primary dwelling.

Broker First Funding (BFF) will allow a one-unit property with up to two ADUs.

Accessory Dwelling Unit (ADU) Requirements:

- ADU square footage must be smaller than the primary dwelling.
- ADU must have separate features from the primary dwelling for the following:
  - Means of ingress/egress
  - Kitchen
  - Sleeping area
  - Bathing area/Bathroom facilities
- The kitchen must include cabinets, countertops, sink with running water, and stove.
- Construction of the ADU must be consistent with the quality of the primary dwelling.
- If it is determined that the property contains an ADU that is not allowed under zoning, the property is eligible, as follows:
  - Hazard insurance replacement cost coverage must include the ADU.
  - Illegal use conforms to the subject neighborhood and market.
  - The appraisal report demonstrates that improvements are typical for the market through an analysis of at least two comparable sales with the same non-compliant zoning use.
- If an ADU can only be accessed through the primary dwelling or the area is open to the primary dwelling, it is not considered an ADU and is ineligible as an ADU.

Other Requirements:

- The property is defined as a one-unit property with up to two ADUs.

Three or more ADUs on a single lot are not permitted.

- Appraisal Report:
  - Include a description of the ADU and analyze the effect it has on marketability of the subject property.
  - Demonstrate that improvements are typical for the market through an analysis of at least one comparable property with the same use and same number of ADUs.
  - Form 1025 must be completed when there are two ADUs.
- Rental income may be used for the accessory unit subject to the following:
  - Appraisal report to reflect zoning compliance is legal or in compliance with zoning laws.
  - Permits are to be verified if required by the jurisdiction.
  - Appraisal report to include at least one comparable with the same number of ADUs as the subject property.
  - Gross market rents must be itemized when there are two ADUs that generate rental income.
  - Purchase Transactions:
    - Owner-Occupied/2nd Home: Income from the accessory unit may not be used as qualifying income.

- Investment:
  - Long Term Rental: Use the lower of the market rent on FNMA Form 1007/1025 or actual rent, if the lease is transferred (copy of lease agreement required).
  - Short Term Rental: Follow documentation requirements for the selected doc type.
    a) If using AirDNA, total bedroom count should include both the primary dwelling and ADU(s).
- Refinance Transactions:
  - Owner-Occupied/2nd Home: Income from the accessory unit may not be used as qualifying income.
  - Investment:
    - Long Term Rental: Use the lower of the market rent on FNMA Form 1007/1025 or actual rent. When documenting actual rent, follow the requirements for the selected doc type.
    - Short Term Rental: Follow documentation requirements for the selected doc type.
      a) If using AirDNA, total bedroom count should include both the primary dwelling and ADU(s).

10.1.5F – 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.

10.1.5G – TRANSFER OF APPRAISAL

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

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

10.1.6A – APPRAISAL AGE 5-8 UNIT AND 2-8 MIXED USED – (09/02/2024)

Appraisals dated fewer than 120 days prior to the Note date are acceptable. After 120 days, a new appraisal is required.

10.1.6B - 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.

10.1.6C - 2-8 MIXED USE PROPERTIES – (01/22/24)

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

One of the following appraisal reports are acceptable:

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

- A narrative report can be utilized and must include the sales approach with repeat sales analysis in value determination.

Regardless of the report type, the following are required:

- 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.

10.1.6D - APPRAISAL ATTACHMENTS REQUIRED (APPLIES TO 5-8 UNIT 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
- Appraiser qualifications

10.1.6E - 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)

10.1.7 - APPRAISAL REVIEW REQUIREMENTS

10.1.7A - APPRAISAL REVIEW PRODUCTS 1-4 RESIDENTIAL PROPERTY – (09/02/24)

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

The following options are eligible review products:

- The appraisal report to Collateral Underwriter® (CU®) or Loan Collateral Advisor® (LCA). An eligible score is 2.5 or less. The file must include a copy of the Submission Summary Report (SSR). (Only one score required, if both scores (CU & LCA) provided, both required to be

2.5 or less). If the score exceeds 2.5, the file must include either an enhanced desk review, field review, or second appraisal; or

- An enhanced desk review product from one of the following choices:
  - ARR from Stewart Valuation Intelligence FKA Pro Teck
  - CDA from Clear Capital
  - ARA from Computershare
  - CCA from Consolidated Collateral Analysis.

- If the enhanced desk review product reflects a value more than 10% below the appraised value or cannot provide a validation, the file must include either a field review or a second appraisal. A field review or a second appraisal is acceptable. These may not be from the same appraiser or appraisal company as the original report.
- AVM from an approved vendor dated within 90-days of the Note date, with the following:
  - Acceptable FSD score range
  - AVM value must be within 10% of the appraised value.
- If the AVM reflects a value more than 10% below the appraised value or cannot provide a value, the file must include an enhanced desk review product, field review, or a second appraisal. These may not be from the same appraiser or appraisal company as the original report.

10.1.7A.1 – AVM VENDORS – (09/02/2024)

THE FOLLOWING AVM VENDORS ARE ACCEPTABLE:	
AVM Vendor	Acceptable FSD Score Range
Clear Capital	0.00 to 0.13
Collateral Analytics	0.00 to 0.10
House Canary	0.00 to 0.10
Red Bell Real Estate (Home genius)	0.00 to 0.10

10.1.7B - APPRAISAL REVIEW REQUIREMENTS 5-8 RESIDENTIAL AND 2-8 MIXED USED – (05/01/25)

- 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.
  - In Pennsylvania and North Carolina, a commercial evaluation product is used instead of the BPO product, or

- A second appraisal may be 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.

10.1.7C - MINIMUM PROPERTY REQUIREMENTS ALL PROPERTIES

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

All properties must:

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

10.1.7D - 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.

10.1.7E - ESCROW HOLDBACKS

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

10.1.7F - 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.

10.2 - PROPERTY TYPES

10.2.1 – 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)

10.2.2 – 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.

10.3 - ACREAGE LIMITATIONS

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

10.4 - STATE ELIGIBILITY – (09/02/24)

For detailed information on State Lending Eligibility: Licensing – https://bffws.com/licensing/

10.4.1 - 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.

10.4.2 – NEW YORK

- Consolidation, Extension, and Modification Agreement (CEMA) is not allowed.
- Refer to matrix for more information.

10.5 – TILA HIGHER PRICED MORTGAGE LOANS (HPML) APPRAISAL RULE 1026.35(A)(1) (PROPERTY FLIPS) – (01/22/24)

Applies to covered HPML transactions.

- Qualified Mortgage (QM) are excluded.

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

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

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

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

10.6 - 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 or Seller must provide documentation, and leaseholds must meet all Fannie Mae® eligibility requirements (i.e., term of lease).

10.7 - 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.

10.8 - 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.

10.8.1 - APPRAISALS COMPLETED PRIOR TO DISASTER – (09/02/2024)

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 as 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, through one of the following:
    - Fannie Mae Form 1004D.
- Any damage must be repaired and re-inspected prior to fund.

10.8.2 - 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.

10.8.3 – DISASTER EVENT OCCURS AFTER CLOSING BUT PRIOR TO LOAN PURCHASE – (05/01/2025)

A loan is ineligible for purchase until an inspection is obtained based on the following:

- Inspection Report must include new photographs of the subject property and street view, through one of the following:
    - FNMA Form 1004D, or

  - Post Disaster Inspection (PDI) Report, see Section 10.8.4 – Post Disaster Inspection Requirements, or
  - Property Condition and Inspection Report, see Section 10.8.4 – Post Disaster Inspection Requirements
- If subject property is free of damage, nothing further is required.
- Any indication of damage reflected in the report will require a re-inspection of the property verifying the damage has been repaired on one of the following:
  - FNMA Form 1004D, or
  - Post Disaster Inspection (PDI) Report, see Section 10.8.4 – Post Disaster Inspection Requirements
  - Property Condition and Inspection Report, see Section 10.8.4 – Post Disaster Inspection Requirements

10.8.4 – POST DISASTER INSPECTION REQUIREMENTS (05/01/2025)

- Inspection must be from the appraiser or a third-party vendor (e.g., Clear Capital, Stewart/Pro Teck)
- Exterior color photos of the subject property and street scene
  - Address verification to be included
- Details of the damage, if any, including cost to cure
  - Color photos of damage incurred as a result of the disaster
- If repairs are required, re-inspection of the subject property to evidence repairs were completed in a workmanlike manner
- Any indication of damage reflected in the report will require the damage to be remediated prior to purchase.

10.9 - CONDOMINIUMS – (05/01/2025)

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 and condominium review except for:
  - Projects with a Fannie Condominium Project Manager (CPM) approval subject to the following:
    - CPM approval must not be expired as of the Note date.

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        - File must contain a PDF print-out of the CPM approval. The PDF document must include a print date that verifies the PDF print-out is generated within 10 days of the Note date.
    - Site Condominium
    - Two- to four-unit condominium projects
    - For the above projects that do not require a completed Condominium Project Questionnaire, the following requirements must be met:
        - Project is not ineligible. See section 10.9.1 – Project Condition – Critical Repairs
        - Evidence of sufficient hazard, flood, and walls-in insurance coverage if the subject unit has individual coverage. If the insurance covers the entire project, it must be sufficient in the event of a total loss.
        - Homeowner's association dues to be included in DTI/DSCR if applicable.
- 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 Condominium Project Questionnaire is not required for site condominiums.
- Projects have been created and exist in full compliance with applicable local jurisdiction, State, and all other applicable laws and regulations.
    - Projects are ineligible if there are outstanding violations of jurisdictional requirements (zoning ordinances, codes, laws, etc.) related to the safety, soundness, structural integrity, or habitability of the project's building(s).
- Projects in need of critical repairs are ineligible, see section 10.9.1 – Project Condition – Critical Repairs
- Special assessment information is to be provided to determine if there is a critical repair or significant deferred maintenance, see section 10.9.1 – Project Condition – Critical Repairs
- FlexPoint Inc. dba Broker First Funding (BFF) exposure maximum shall be $5,000,000 or 20% of the total units in a project greater than 4 units, whichever is lower.
- Subject Unit Minimum Requirements: Minimum 500 Square Feet, Full Size Kitchen, minimum of one (1) bedroom.
- Commercial space allowed up to 50% of the 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
- For condominium projects consisting of five or more units, single entity ownership is limited to 20% of the project.
- 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.

- 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.

10.9.1 – PROJECT CONDIDITON – CRITICAL REPAIRS – (05/01/25)

Projects in need of critical repairs are those needing repairs or replacements that significantly impact the safety, soundness, structural integrity or habitability of the project's building(s), or the financial viability or marketability of the project. Projects in need of critical repairs are ineligible

Critical repairs include conditions such as:

- Material deficiencies, which if left uncorrected, have the potential to result in or contribute to critical element or system failure within one year
- Any mold, water intrusions or potentially damaging leaks to the project's building(s)
- Advanced physical deterioration
- Any project that failed to pass state, county, or other jurisdictional mandatory inspections or certifications specific to structural safety, soundness, and habitability
- Any unfunded repairs costing more than $10,000 per unit that should be undertaken within the next 12 months (does not include repairs made by the unit owner or repairs funded through a special assessment)
- Significant deferred maintenance for improvements in need of substantial repairs and rehabilitation

Examples of critical repairs include but are not limited to the following: sea walls, elevators, waterproofing, stairwells, balconies, foundation, electrical systems, plumbing systems, parking structures, or other load-bearing structures.

If damage or deferred maintenance is isolated to one or a few units and does not affect the overall safety, soundness, structural integrity, or habitability of the project, then these requirements do not apply.

10.9.2 – SPECIAL ASSESSMENTS – (05/01/25)

The Homeowners Association (HOA) will assess a one-time fee to unit owners to cover unexpected or large expenses not covered by regular HOA dues or reserve funds, known as a special assessment.

Special assessments may be current or planned. Sellers must obtain and review the following to determine if it addresses a critical repair:

- Determine the purpose of the special assessment.
- Determine when the special assessment was approved, when it is planned (approved by the unit owners, but not yet initiated by the board), or already being executed.
- Review the original amount of the special assessment and the remaining amount to be collected.
- Evaluate the expected date the special assessment will be paid in full.
- If the special assessment is associated with a critical repair and the issue is not remediated, the project is ineligible.

10.9.3 – INSPECTION REPORTS – (05/01/25)

An inspection report will assess the condition of the project's building(s) and may cover structural and/or mechanical components of the project. If a report is provided, the following items should be reviewed to determine if the project is eligible:

- The report cannot indicate that critical repairs and/or significant deferred maintenance are required, no evacuation orders are in effect, and no regulatory actions are required.
- If the inspection report indicates there are unaddressed critical repairs and/or significant deferred maintenance, the project is ineligible until the required repairs have been completed and documented accordingly.
    - The underwriter must review an engineer's report or substantially similar document to determine if the repairs completed have resolved the safety, soundness, structural integrity, or habitability concerns of the project.
- The underwriter must determine which documents are needed to ensure compliance with the requirements and may need to review a combination of documents.
    - Examples of this documentation include, but are not limited to HOA board meeting minutes, engineer report(s), structural and/or mechanical inspection reports, reserve studies, a list of necessary repairs provided by the HOA or the project's

management company, a list of special assessments provided by the HOA or the project's management company, and other substantially similar documentation

10.9.4 – LIMITED REVIEW – (09/02/24)

To be eligible for a Limited Review, the unit securing the mortgage must be an attached unit in an established condo project.

- The project and the subject unit must meet Fannie Mae requirements and
- The project must be certified as eligible through Fannie Mae's Condo Project Manager (CPM).

The following describes the transactions that are eligible for a Limited Review:

- Full Doc or Bank Statement programs only.
- Maximum LTV/CLTV 75%

10.9.5 - 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.

10.9.6 - 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.

10.9.7 – CONDOTELS – (05/01/2025)

- Condominium Hotel – (a.k.a. Condo Hotel, Condotel)

- Projects that offer any of the following characteristics
  - Hotel/resort amenities, services, and/or fees
  - Cleaning and maintenance services
  - On-site or centralized reservation and/or registration
  - Short-term rentals (daily, weekly, monthly) managed by the Project or leasing office
  - Food Service/restaurant/bar
- Maximum LTV/CLTV (may vary by product – see Loan/LTV matrix):
- Maximum Loan Amount: $1.5 million
- Minimum Loan Balance: $150,000
- Investor concentration, within the subject project, may exceed established project criteria, up to 100%.
- Gross rents (for all income doc types) reduced by 10% 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
- Separate Bedroom required.

10.9.8 - INELIGIBLE PROJECTS – (09/02/24)

- 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.
- Any project in need of critical repairs.
- Any project with significantly deferred maintenance or has received a directive from a regulatory or inspection agency to mark repairs due to unsafe conditions.
- Any project with outstanding violations of jurisdictional requirements (zoning ordinances, codes, laws, etc.) related to the safety, soundness, structural integrity, or habitability of the project's building(s).

10.9.9 - 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.
- Insurance coverage amount less than full replacement amount is ineligible (Actual Cash Value is not permitted).
- Project in a flood zone with no master flood coverage are ineligible. Borrower individual policies are not acceptable.
- Newly converted – Non full gut rehab not allowed.

10.9.10 - 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.

10.9.11 - CONDOMINIMUM INSURANCE REQUIREMENTS – (09/02/2024)

Project to meet all Fannie Mae® insurance requirements for property, liability, and fidelity coverage.

10.9.11A – MASTER INSURANCE (05/01/2025)

Master property insurance policies are required for the common elements and residential structures unless the condo project requires individual property insurance policies for each unit. In that case, the individual property insurance policy must meet the requirements in Section 1.4 Property Insurance Requirements.

Master property insurance policy must provide for claims to be settled on a replacement cost basis.

- Property insurance policies that provide for claims to be settled on an actual cash value basis are not acceptable.
- Policies that limit, depreciate, reduce, or otherwise settle losses at anything other than a replacement cost basis are also unacceptable

The underwriter must verify that the property insurance coverage amount is at least equal to 100% of the replacement cost value of the project improvements, including common elements and residential structures, as of the current property insurance policy effective date.

- The source that the seller uses to verify the coverage amount may be the property insurer, an independent insurance risk specialist, or other professional with appropriate resources to make such a determination. This may include, but is not limited to, a statement from the insurer or other applicable professional, a replacement cost estimator, or an insurance risk appraisal.

Master insurance policy must include the project name and project address for the location of the condo project.

- Borrower name, unit number, and mortgagee clause are not required to be included in master insurance policy.

10.9.11B - FIDELITY OF EMPLOYEE DISHONESTY INSURANCE FOR CONDOMINIUMS

For condominium projects consisting of more than 20 units, fidelity insurance coverage equaling

10.9.11C – GENERAL LIABILITY INSURANCE – (05/01/2025)

General liability insurance is required for all condo projects, except for detached condo units and 2–4-unit condo projects.

When required, the HOA must maintain a general liability insurance policy for the entire project. The general liability insurance policy must include coverage for:

- Commercial spaces that are owned by the HOA even if they are leased to others, and
- Bodily injury and property damage that results from the operation, maintenance, or the use of the project's common elements, and any other areas under its supervision

The amount of coverage must be at least $1,000,000 for bodily injury and property damage for any single occurrence.

The general liability insurance policy must include a separation of insureds or severability of interest's provision in its terms. If the policy does not include separation of insureds or severability of interests in its terms, Verus requires a specific endorsement to preclude the insurer's denial of a unit owner's claim because of negligent acts of the HOA or co-op corporation or of other unit owners.

10.9.11D – HO-6 – (05/01/2025)

The borrower must maintain H0-6 Policy or "Walls-In" coverage unless the master property insurance policy provides coverage for the subject unit. The effective date of the policy must be on or before the Note date.

H0-6 Policy must include coverage for the replacement of such items as flooring, wall covering, cabinets, fixtures, built-ins, and any improvements made to the unit if the master or blanket policy does not provide interior unit coverage.

The HO-6 insurance policy must provide coverage in an amount as established by the HO-6 insurer.

10.9.11E – DEDUCTIBLE – (05/01/2025)

The maximum deductible amount is based on the following:

- 5% deductible for LTV > 80%
- 10% deductible for LTV ≤ 80%

10.9.11F – MASTER FLOOD INSURANCE – (05/01/2025)

The condominium homeowner's association must obtain an NFIP Residential Condominium Building Association Policy (RCBAP) or equivalent private flood insurance coverage for a condo building consisting of attached units located within an SFHA.

- The only building that must be verified is the subject unit's building.

- Evidence of master flood insurance policy is not required if the unit owner maintains an individual flood dwelling policy that meets the coverage requirements in Section 1.5 – Flood Insurance.
- Master flood insurance policy must cover the following:
    - Subject unit's entire building, and
    - All of the common elements and property, including machinery and equipment that are part of the building
- Building Coverage must be at least equal to the lesser of:
    - 80% of the replacement cost value, or
    - Maximum coverage amounts available per NFIP per unit (i.e., Total number of units in the condominium building times $250,000)
- Contents Coverage must be at least equal to the lesser of:
    - 100% of the replacement cost value of all contents owned in common by the association members, or
    - Maximum coverage amounts available from NFIP

10.9.11G – FLOOD INSURANCE DEDUCTIBLE - (05/01/2025)

Deductible may not exceed the maximum deductible amount currently offered by NFIP.

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

BROKERS FIRST FUNDING
YOUR BFF IN WHOLESALE

Initial ATR Index:		Other Debt:	
Lien Position:		Previous total debt:	
Purpose:			
Total Cash Out:		Qualifying Score:	
Total Cash %:		# Of Active Trades:	
Reserves (Months):		Properties owned:	
Cash Reserves:		Escrows:	
Hsg./Mtg. Hist. 30x12:		Hsg./Mtg. Hist. 30x24:	
Hsg./Mtg. Hist. 60x12:		Hsg./Mtg. Hist. 60x24:	
Hsg./Mtg. Hist. 90x12:		Hsg./Mtg. Hist. 90x24:	

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).

<u>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.</u>

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 NARRITIVE FORM (NON-QM ONLY)

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

TAXPAYER CONSENT FORM

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