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1. NON-QM UNDERWRITING GUIDELINES

1.1 GENERAL INFORMATION

1.1.1 FAIR LENDING POLICY

Lendz Financial strictly complies with all applicable federal, state, and local requirements related to fair lending, including the Equal Credit Opportunity Act and the Fair Housing Act (together, the “Fair Lending Requirements”). Accordingly, in connection with its decision to purchase loans, Lendz Financial will not discriminate on any prohibited basis. Lendz Financial will also not knowingly fund loans from Loan Originators engaged in practices that violate Fair Lending Requirements. To the extent a Loan Originator is found to be engaging in practices that may violate Fair Lending Requirements, Lendz Financial may terminate its contractual relationship with such Loan Originator and take any other action that it deems appropriate.

1.1.3 REGULATORY COMPLIANCE

Loan Originators and any of their sub-servicers will be in compliance with all federal, state, and local laws including without limitation, all statutes, regulations, ordinances, administrative rules, and orders that have the effect of law, and judicial rulings and opinions, that apply to any of their origination, selling, or servicing practices or other business practices and related technology. The Loan Originator must comply with any applicable law that addresses fair housing, fair lending, equal credit opportunity, truth in lending, wrongful discrimination, appraisals, real estate settlement procedures, borrower privacy, data security, escrow account administration, mortgage insurance cancellation, debt collection, credit reporting, electronic signatures or transactions, predatory lending, anti-money laundering, terrorist activity, ability to repay, state community and marital property, or the enforcement of any of the terms of the mortgage. Each Loan Originator will establish appropriate facilities and processes for monitoring applicable legal developments and implementing appropriate measures to stay in compliance with applicable law and will be able to demonstrate satisfactory performance of its legal compliance upon Lendz Financial’ request. The Loan Originator may be required to repurchase a mortgage loan that is in breach of the requirements of this section at any time.

1.1.4 ABILITY TO REPAY (ATR)

All loans subject to the general ATR underwriting standards (12 C.F.R 1026.43(c)) require a creditor to make a reasonable, good-faith determination that the consumer has a reasonable ability to repay the loan prior to or at consummation. A reasonable, good-faith ATR evaluation must consider the following eight underwriting factors based on available information in the mortgage loan file using reliable third-party records:

- Income or assets used to repay the loan
- Employment status
- Monthly mortgage payment on the subject loan (fully indexed, fully amortizing)
- Monthly payments for any simultaneous loans secured by the subject property
- Monthly payments for property taxes, hazard insurance, HOA fees, or ground rents
- Debts (reported by a credit bureau or disclosed by the consumer), alimony, and child support obligations

- Monthly DTI or residual income
- Credit history

1.1.5 HOME MORTGAGE DISCLOSURE ACT (HMDA)

The Loan Originator is required to comply with the Home Mortgage Disclosure Act (HMDA), including without limitation all data collection, recordkeeping, and reporting requirements in connection with the Loan Originator's credit decision on each loan file delivered to Lendz Financial.

1.1.6 HIGH PRICED MORTGAGE LOANS

- Escrows for taxes and insurance will be required for 5 years.
- Two appraisals are required to be delivered for flip transactions as defined by the CFPB.
- Hybrid appraisal ineligible

2.0 GENERAL UNDERWRITING

The Lendz Financial guidelines are intended to reference and supplement Fannie Mae's Seller Guide. Refer to the Fannie Mae Seller Guide for specific information concerning qualification requirements that are not specifically referenced in the guidelines. All loans must be manually underwritten

All Covered Loans must be designated as ATR compliant and must adhere to the standards set forth in the CFPB's Reg Z, Section 1026.43(c).

2.1 STATE AND FEDERAL HIGH COST LOANS

Lendz Financial does not fund loans that are subject to the Home Ownership and Equity Protection Act of 1994 (HOEPA), also known as "federal high cost" mortgages.

Further, with the exception of loans that comply with N.Y. Banking Law § 6-M (New York Subprime), Lendz Financial does not fund mortgage loans that meet the definition of "high cost," "high risk," "covered," "subprime," or any similar designation under state or local law.

2.1.1 NEW YORK SUBPRIME DEFINITION:

Subprime home loan means a home loan in which the initial interest rate or the fully-indexed rate, whichever is higher, exceeds by more than one and three-quarters percentage points for a first-lien loan, or by more than three and three-quarters percentage points for a subordinate-lien loan, the average commitment rate for loans in the northeast region with a comparable duration to the duration of such home loan, as published by the Federal Home Loan Mortgage Corporation (herein "Freddie Mac") in its weekly Primary Mortgage Market Survey (PMMS) posted in the week prior to the week in which the lender provides the Loan Estimate.

2.2 LENDZ FINANCIAL REQUIREMENTS

The Credit Guidelines provide detailed requirements for funding eligibility but Lendz Financial is not obligated to fund a loan even if it satisfies these requirements. Compliance with these guides does not create a commitment by Lendz Financial to fund. Lendz Financial has sole discretion to fund any loans.

Lendz Financial has a no-tolerance policy as it relates to fraud. Loan Originators should have and continue to follow their own established fraud and identity procedures for every loan to prevent and detect fraud (including, but not limited to, Social Security Number Verification, verbal verifications of employment, processing of 4506- T, USPS, OFAC, AML and any other Exclusionary Lists). Loans containing fraudulent documentation or information will not be funded by Lendz Financial. Any determination of Loan Originator involvement and/or knowledge of misrepresentation will result in the dissolution of any Third-Party relationship. The appropriate agencies will be notified.

2.3 LENDZ FINANCIAL PROGRAMS

Lendz Financial offers several loan programs. See the Lendz Financial Matrices for complete details:

- Platinum Program
- Gold Program
- DSCR Program

2.3.1 DEVIATION FROM THE GUIDELINES

Deviations from the underwriting guidelines based on compensating factors need to be documented in the loan file.

2.3.1.1 COMPENSATING FACTORS

Including but not limited to the following:

- | | |
|--|--|
| ▪ FICO score above minimum by 20 points or higher | ▪ 0 X 30 X 24-month housing history |
| ▪ DTI below max by 5% or greater | ▪ 5 years minimum in subject property |
| ▪ PITIA reserves above minimum by 6 months or higher | ▪ Job stability of 5 years or more |
| ▪ Reduction in housing payment by 10% or greater | ▪ Stable ancillary income sources for borrower not being used for qualifying |
| ▪ Minimal payment shock | ▪ Residual Income |

- **LTV is not a compensating factor for primary residence**
- Conservative use of non-housing debt

2.3.2 ALTERNATIVE DOCUMENTATION

Alternative Documentation may be used to determine qualifying income both alone and in conjunction with other documentation options.

Personal Bank Statements, Business Bank Statements, P&L Only, 1099 Reduced Doc, Asset Depletion & Asset Utilization are considered Platinum Alt-Doc from a credit and pricing standpoint. When more than one documentation option is utilized for qualifying, i.e., bank statements together with asset depletion, then the documentation option yielding the highest borrower income will be used to determine pricing. Please see the applicable Lendz Financial Matrix for restrictions.

2.3.3 AGE OF DOCUMENTS

2.3.3.1 CREDIT REVIEW DOCUMENTS

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

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

Any credit review documents exceeding these timeframes must be updated.

2.3.3.2 APPRAISAL AGE

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

Closed End Second products allow for use of an AVM. All AVMs are to be dated within 30 days of the Note date.

3.0 BORROWER ELIGIBILITY

3.1 U.S. CITIZEN

Eligible without guideline restrictions.

3.2 PERMANENT RESIDENT ALIENS

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

3.2.1 VERIFICATION OF PERMANENT RESIDENCY STATUS

Acceptable evidence of permanent residency includes 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.

3.3 NON-PERMANENT RESIDENT ALIENS

A Non-Permanent Resident Alien is a non-U.S. citizen authorized to live and work in the U.S. on a temporary basis. Non-Permanent Resident Alien borrowers are eligible for all products and programs available on the applicable Lendz Financial Matrix.

- If one borrower on the transaction is a US citizen, Non-Permanent resident program restrictions do not apply.

3.3.1 VERIFICATION OF NON-PERMANENT RESIDENCY STATUS

All nonpermanent resident alien borrower(s) must verify they are legally present in the United States with a copy of one of the following:

- VISA
 - If expiration is within six months of the loan application and the borrower has not changed employers, a copy of the employer's letter of sponsorship for visa renewal must be provided.
 - If Visa has expired, a valid USCIS Form I-797 confirming submitted application to renew.
- EAD Card
 - If expiration is within six months of the application the borrower must show evidence, they have applied for an extension or provide letter from the employer indicating they will continue to sponsor their employment

- For residents of Canada or Mexico, H1-B status stamped on an unexpired passport

Other than U.S. Citizens, all Eligible Borrowers must evidence their residency status by providing applicable USCIS documentation. Lendz accepts any of the following non-permanent resident statuses:

VISA ELIGIBILITY MATRIX			
Visa Category	Visa Type	Brief Description	EAD Code
Trade Treaty Work Visa	E-1	Treaty trader - employee, spouse, and/or child	C02
	E-2	Treaty investor - employee, spouse, and/or child	A17/C12
	E-3	Specialty occupation	
	E-1, E-2, or E-3D	Spouse of E-1, E-2 or E-3	
Temporary Employment Visa	H-1B	Specialty Occupation	
	H-1B1	Specialty Occupation	
	H-1B2	Specialty Occupation - U.S. Department of Defense	
	H-1B3	Fashion model of distinguished merit and ability	
	H-1C	Registered nurse - U.S. Department of Labor	
	H-4	Spouse or child of H-1B	C26
Media Work Visa	I	Foreign media outlet (press, radio, film, or other)	
Nonimmigrant Visa for Fiancé(e)	K-1	Fiancé(e) - purpose of marriage	A06
Nonimmigrant Visa for Spouse	K-3	Spouse of a U.S. citizen	A09
Temporary Employment Visa	L-1A	Intracompany transfer - managerial or executive	
	L-1B	Intracompany transfer - specialized knowledge	
	L-2	Spouse or child of L-1A or L-1B	A18
Temporary Employment Visa	O-1A/B	Extraordinary ability in analysis, business, education, entertainment	
	O-2	Assistant to O-1	
	P-1A	Internationally recognized athlete	
NAFTA Professional Workers Visa	TN	Professional under NAFTA	
	V-1	Spouse of a Legal Permanent Resident (LPR) who is the principal beneficiary of a family-based petition (Form I- 130) which was filed prior to December 21, 2000, and has been pending for at least three years.	

Spouse / Child of Permanent Resident Alien	V-2	Child of a Lawful Permanent Resident (LPR) who is the principal beneficiary of a family-based visa petition (Form I-130) that was filed prior to December 21, 2000, and has been pending for at least three years.	A15
	V-3	The derivative child of a V-1 or V-2.	

TEMPORARY EMPLOYMENT VISAS – ADDITIONAL INFORMATION			
Visa Category	Visa Type	Brief Classification Description	USCIS Period of Stay/Extension Requirements – Income Continuity, Stability, and Dependability Considerations
Temporary Employment Visa	H1-B	Specialty Occupations, DOD Cooperative Research and Development Project Workers, and Fashion Models	- An H-1B specialty occupation worker or fashion model, - May be admitted for a period of up to three years. - The time period may be extended, but generally cannot go beyond a total of six years, though some exceptions do apply.
	L-1A	Intracompany Transferee Executive or Manager	- Qualified employees entering the U.S. to establish a new office will be allowed a maximum initial stay of one year. - All other qualified employees will be allowed a maximum initial stay of three years. - All L-1A employees, requests for an extension of stay may be granted in increments of up to an additional two years, until the employee has reached the maximum limit of seven years.
	L-1B	Intracompany Transferee Specialized Knowledge	- Qualified employees entering the U.S. to establish a new office will be allowed a maximum initial stay of one year. - All other qualified employees will be allowed a maximum initial stay of three years. - All L-1B employees, requests for extension of stay may be granted in increments of up to an additional two years, until the employee has reached the maximum limit of five years.
	O-1A/ O-1B/ O-2	Individuals with Extraordinary Ability or Achievement	- An initial period of stay for up to 3 years. - USCIS will determine time necessary to accomplish the initial event or activity in increments of up to 1 year. - New petitions involving new events or an event that, on a case-by-case basis is determined to be materially different from the event in the initial petition may be approved for up to 3 years.
	P-1A	Athlete	- Individual athlete - The time needed to complete the event, competition, or performance. - This period of time cannot exceed five years. - Extensions of Stay in increments of up to five years in order to continue or complete the event, competition, or performance.

			Total stay is limited to 10 years.
	P-1B	Member of an Internationally Recognized Entertainment Group	- Time needed to complete the event, competition or performance, not to exceed one year. - Extensions of Stay in increments of up to one year in order to continue or complete the same event, competition or performance for which you were admitted.

EAD ELIGIBILITY MATRIX	
Certain borrowers may hold an EAD which does not require a corresponding Visa type.	
EAD Code	EAD Code Definition
C08	Pending asylum application
C09	Adjustment of status applicant
C10	- Nicaraguan Adjustment and Central American Relief Act (NACARA) section 203 applicants Applicant for suspension of deportation - Applicant for cancellation of removal
C24	LIFE legalization applicant
C31	- Principal beneficiary of an approved VAWA self-petition - Qualified child of a beneficiary of an approved VAWA self-petition
C33	Deferred Action for Childhood Arrivals

3.4 FOREIGN NATIONAL

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 Platinum, or Gold matrix.

Foreign National limited to the following occupancy:

- Non-owner-occupied investment

Foreign Nationals are eligible under the following matrices:

- Foreign National (DSCR - Investment properties)

Any borrower(s)/guarantor(s) identified on OFAC sanction list are ineligible

3.4.1 PRIMARY RESIDENCE - FOREIGN RESIDENCY

A foreign national borrower must evidence their primary residence as follows:

- Primary Residence in a foreign country

- The Application must include the borrowers full legal name, phone number, address including the flat, floor unit or house number and the street name, city, province/state along with a postal code.
- Primary residence in the US:
 - The application must include the borrower's address for their primary residence.
 - Provide evidence of ownership (e.g., Property profile report, Fraud Report, Settlement Statement, Closing Disclosure)
- ITIN borrowers who do not own a primary residence in the US. Are ineligible
- Housing history – see housing history section.

3.4.2 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.
- The “Borrower Contact Consent Form” is required.

3.4.3 FOREIGN NATIONAL PROGRAM SPECIFIC DOCUMENTATION REQUIREMENTS

- The following are required as evidence the borrower is in the U.S legally:
 - Copy of the borrowers valid and unexpired passport (including photograph).
 - ITIN borrowers to provide the following:
 - Copy of the unexpired government photo ID (e.g., driver's license, passport) and
 - ITIN card or letter from IRS assigning the ITIN number to the borrower
- For DSCR transactions, 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 Individuals for criteria.
- OFAC Sanctioned Countries: See Section Foreign Countries 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
 - Conveyances to Foreign Entities – By Entity Buyer
- Individuals with Diplomatic immunity are not eligible, immunity status is listed on the reverse side of the U.S. issued ID card or at: <https://2009-2017.state.gov/s/cpr/rls/dpl/index.htm>

- Documents signed by Borrowers outside of the United States must be notarized by a U.S. embassy or consular official. The certificate of acknowledgment must meet the standard notarial requirements and must include the embassy or consular seal. If the U.S. embassy or consular official is unavailable, a notary is acceptable if the country, where signing is taking place, is part of the Hague Convention and the signed documents are accompanied by an Apostille. See the following link to determine if the country is part of the Hague Convention: <https://travel.state.gov/content/travel/en/records-and-authentications/authenticate-your-document/apostille-requirements.html>
 - Model Apostille forms can be found on the following link: <https://www.hcch.net/en/instruments/specialised-sections/apostille>
- Power of Attorney (POA) is not allowed.

3.4.4 QUALIFYING U.S. CREDIT FOR FOREIGN NATIONAL BORROWERS

- Foreign national borrowers with a valid Social Security number or ITIN, the following apply:
 - Credit report is required, see Credit Section:
 - In all cases, a credit report must be included in the file evidence that the borrower's score or score is not available.
 - ITIN borrowers who do not own a primary residence in the U.S. are ineligible for DSCR.

3.4.5 HOUSING HISTORY – FOREIGN NATIONAL

Housing History is required for the following:

- Primary residence if the borrower resides in the U.S. – See housing history section.
- Subject property refinance transactions (including cash out), see Housing history section.

3.4.6 FOREIGN NATIONAL INCOME

- DSCR Income Doc Type – See section for Debt Service Coverage (Investment Property) for DSCR calculation methods.
- See Foreign National matrix for eligibility.
- Foreign National – Consumer Purpose Loan
 - Income must be stated on the loan application
 - Income must be verified via one of the following:
 - 12 or 24 months of business bank statements – see section 8.6.1.2 Business Bank Statements for requirements
 - 12 or 24 months of Profit and Loss Statement – see section 8.6.2 Profit and Loss Statement for requirements
 - All documents must be translated by a certified translator.

- Foreign National borrowers who have been self-employed for at least 2 years are allowed.
- Verification of the existence of the business is required through verbal VOE or similar method. Must verify the business is currently open.

3.4.7 FOREIGN NATIONAL ASSETS

3.4.7.1 ASSETS HELD IN FOREIGN ACCOUNTS

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 when documenting funds to close:

- 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, account holder name, and account number. The 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:

- A copy of the most recent statement of that account
- 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.
- See section 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.

3.4.7.2 GIFT FUNDS

Gift funds are allowed for Foreign National Transactions.

3.5 NON-OCCUPANT CO-BORROWERS

Platinum Program Restrictions:

- Single unit only
- Cash-Out not eligible
- Second Homes not eligible

No program restrictions for Gold – Follow FNMA Seller Guide

- Non-occupant co-borrowers are credit applicants who do not occupy the subject property
- Must sign the mortgage or deed of trust
- Must not have an interest in the property sales transaction, such as the property seller, builder, or real estate broker

- Blended ratios allowed

3.6 FIRST TIME HOMEBUYER

An individual is considered a first-time home buyer when they are 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 five-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 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 five-year time period.

The following requirements apply to first-time homebuyer transactions:

- Primary transactions only.

3.7 INELIGIBLE BORROWERS

- Irrevocable Trust
- Land Trust
- Blind Trust
- Persons with Diplomatic Immunity, as defined by US Citizenship and Immigration Services
- Persons from OFAC sanctioned countries and persons sanctioned by OFAC
- Not-for-profit entity
- ITIN borrowers who are not Foreign Nationals
- 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.

3.8 LENDZ FINANCIAL EXPOSURE – BORROWER LIMITATIONS

- The maximum number of financed properties **per series** to any one Borrower is limited to twenty (20) residential properties (Not applicable for Cross Collateralized Loans)
- Maximum Lendz Financial exposure per series to single Borrower: \$7.5mm in unpaid principal balance or ten (10) properties (Not applicable for Cross Collateralized Loans)
- A Second Level Review (SLR) is required under either of the following conditions:
 - The individual loan amount exceeds \$1,000,000,
 - The cumulative loan amount of all active applications for a borrower exceeds \$1,000,000, regardless of the number of individual transactions submitted

4.0 TITLE VESTING AND OWNERSHIP

4.1 ELIGIBLE VESTING

Ownership may be fee simple or leasehold title. For more information regarding leaseholds, see the leasehold properties section. Title must be in the borrower's name (owner-occupied property) at the time of application for refinance.

- Individuals
- Joint tenants
- Tenants in Common
- Inter-Vivos Revocable Trust permitted in accordance with Fannie Mae
- Business Entity
 - Limited Liability Corporation (LLC)
 - Limited General Partnership
 - Corporations
 - S Corporation

4.1.1 INTER-VIVOS REVOCABLE TRUST

Inter-Vivos Revocable Trusts are allowed as vested or titled owners of the subject property (but not as borrowers). The trust must be established by one or more natural persons, solely or jointly. The primary beneficiary of the trust must be the individual(s) who establishing the trust. The trust must become effective during the lifetime of the person establishing the trust.

If the trust is established jointly, there may be more than one primary beneficiary as long as the income or assets of at least one of the individuals establishing the trust will be used to apply and qualify for the mortgage.

The trustee must include either:

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

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

A copy of the trust is required, or a signed attorney's opinion may be obtained in lieu of the trust documents. The opinion letter must indicate that the trust meets all published requirements and must also include the following:

- Name of the trust
- Date executed

- Settler(s) of the trust
- Whether it is revocable or irrevocable
- Whether the trust has multiple trustees
- Name of trustees
- Manner in which vesting will be held

The attorney needs to also verify that the trust has not been revoked, modified, or amended in any manner that would cause the representations to be incorrect.

The deed of trust/mortgage and all attached riders must be completed by the authorized trustee(s) of the trust that is the vested owner of the subject property.

4.1.2 BUSINESS ENTITY FOR BUSINESS PURPOSE LOAN

- Layering of entities (i.e. LLC whose member(s) are a trust) allowed but not more than two layers.
- Personal guarantor required - Personal Guarantor must also sign closing documents and disclosures.
- All members of the entity must be a natural person
- Final loan docs may not be signed with a POA
- Non-profit 501 c3 – ineligible
- Entity must be domiciled in a U.S. State.
- A guarantor must have authority to execute loan documents on behalf of the entity.

4.1.2.1 GUARANTOR(S) DOCUMENTATION

- Loan Application (e.g., FNMA Form 1003 or other application)
 - Completed for each guarantor.
 - Section labelled “Title will be held in what Name(s)” should be completed with **only** the LLC name
 - Signed by Individuals
- Credit report from all guarantors completing an application, see credit reports section.
- Disclosure documents
 - Business purpose loan disclosures as applicable (e.g., GFE, TIL, LE, CD, ECOA)
 - Any state or federally required settlement statement as applicable
- Legal Documents
 - 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 (AK, AZ, ID, LA, NM, TX, WA, WI) must be accompanied with a Spousal Consent to Pledge.

4.1.2.2 BUSINESS ENTITY VESTING

Ownership or title vesting in the name of an LLC, partnership, or corporation (collectively 'Entity') is acceptable on investment property transactions only. While only individual owners of the Entity must qualify as the borrowers, ownership of the subject property may vest in an Entity.

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

- Business purpose and activities are limited to ownership and management of real estate
- Entity limited to a maximum of 4 owners (aka members, partners, or shareholders)
- The borrower is at least 25% or majority shareholder.
- The loan application, credit report, income and assets for each individual owner will be used to determine qualification and pricing
- Each Entity owner must receive notice of the loan and its terms prior to closing

The following Entity documentation must be provided:

- **Limited Liability Company (LLC)**
 - Entity articles of organization or partnership (or equivalent)
 - Evidence of good standing
 - Good standing is always required for the state in which the entity was formed (e.g., Certificate, screen shot from state website).
 - 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 member 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
 - Good standing is always required for the state in which the entity was formed (e.g., Certificate, screen shot from state website)
 - If the subject property is not located in the same state in which the entity was formed, evidence of good standing is also required from the state where the subject property is located (e.g., Certificate, screen shot from state website)
- EIN/Tax Identification Number
- Borrowing Resolution/Corporate Resolution granting authority of signer to enter loan obligation
- Receipt of current year franchise tax payment, clear search, or evidence the state does not require a franchise tax payment.

- **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
 - Good standing is always required for the state in which the entity was formed (e.g., Certificate, screen shot from state website)
- EIN/Tax Identification Number
- Limited partner consents (where required by partnership agreement).

Documents must be completed and signed as follows:

- Business Purpose and Occupancy Affidavit – signed by each individual owner (both at submission and closing)
- Loan Application (1003) - completed and signed by each individual owner. 1003 section labeled “Title will be held in what Name(s)” should be completed with only the Entity name.
- Disclosures (GFE, TIL, Notice of Intent to Proceed, Servicing Disclosure, etc.) - completed and signed by each individual owner
- Closing Disclosure - completed and signed by each individual owner
- Other Closing Documents (Final TIL, Business Purpose and Occupancy Affidavit, etc.) - completed by the individual owners(s) of the Entity
- Note – signed by each individual borrower
- Deed of Trust/Mortgage and all attached Riders – must be completed by the authorized owner(s) of the Entity who can legally sign and bind the Entity that is the vested owner of the subject property

4.1.3 LEASHOLD ESTATE

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

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

4.1.4 POWER OF ATTORNEY

Lendz Financial does allow a limited 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 FNMA Form 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

5.0 OCCUPANCY

5.1 OCCUPANCY TYPES

Primary Residence – A primary residence is a property that the borrower occupies as his or her principal residence or intends to occupy within 60 days of funding. 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.

- All investment property programs require the signed Business Purpose and Occupancy Affidavit.

6.0 TRANSACTION SPECIFIC

6.1 PURCHASE TRANSACTION

A purchase transaction is one which allows a buyer to acquire a property from a seller. A copy of the fully executed purchase contract and all attachments or addenda is required.

The lesser of the purchase price or appraised value of the subject property is used to calculate the loan-to-value.

Ensure the transaction is compliant with the Higher Priced Mortgage Loan appraisal rule. See section of ("Property Flipping") for details.

6.1.1 NON-ARMS' LENGTH TRANSACTION

- Non-Arm's Length Transaction. A non-Arm's Length transaction is a transaction between family members, co-workers, friends, or anyone associated with the transaction such as the listing agent, mortgage lender or broker. The following are required if the purchase of the subject property is a non-arm's length transaction:
 - Gift of Equity is eligible: a Gift of Equity occurs when equity in a property is gifted from the owner to the borrower when the borrower and owner are related.
 - Examples of Non-Arm's Length Transactions:
 - Relatives: defined by blood, marriage, adoption, or legal guardianship. The transactions between parents, siblings, grandparents, aunt, uncle, cousin, step- child or spouse is considered Non-Arm's Length.
 - Employee/Employer
 - Landlord/Tenant
 - Home Builders
 - Real Estate Brokers/Agents
 - Third-Party Service Providers
 - Seller Employees
 - Owner Financed

6.2 RATE/TERM REFINANCE

Proceeds from the transaction are used to:

- Pay off an existing first mortgage loan and any subordinate loan used to acquire the property.
- Pay off any subordinate loan not used in the acquisition of the subject property, provided one of the following apply:

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

Other considerations:

- Cash back in an amount not to exceed the lesser of 2% of the new loan amount or \$5,000 can be included in the transaction.
- 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.

6.3 CASH-OUT REFINANCE TRANSACTION

A refinance that does not meet the definition of a rate/term transaction is considered cash-out.

See Loan/LTV Matrices for maximum cash-out amounts and restrictions.

A mortgage secured by a property currently owned free and clear is considered cash-out.

The payoff of delinquent real estate taxes (60 days or more past due) is considered cash-out.

If the cash-out is for personal, family, or household use, the loan must also meet all applicable federal and state requirements of a consumer loan transaction even if the borrower is a company or the loan was initially intended for business purposes, including but not limited to the requirements of the Truth in Lending Act (15 U.S.C. § 1601 et seq.), Real Estate Settlement Procedures Act (12 U.S.C. § 2601 et seq.), Gramm-Leach Bliley Act (15 U.S.C. §§ 6802-6809), Secure and Fair Enforcement Mortgage Licensing Act (12 U.S.C. § 5601 et seq.) and Homeowners Protection Act (12 U.S.C. § 4901 et seq.).

Cash-out eligible to satisfy the reserve requirements.

Loans not eligible for cash-out:

- There has been a prior cash-out transaction within the past six (6) months
- Payoff of a Land Contract/Contract for Deed.
- Non-Owner-Occupied investment property transactions (Investor DSCR) when proceeds from the loan transaction are used for consumer purpose, i.e., payoff personal debt, personal tax lien(s), personal judgments, personal collection, or lines of credit secured by the subject property.

Cash-Out Seasoning is defined as the time difference between note date of the new loan and the property acquisition date.

A minimum borrower seasoning requirement of six (6) months is required for a transaction to be eligible for cash-out.

For properties owned six (6) months or longer, the LTV/CLV is based upon the appraised value.

6.3.1 DELAYED FINANCING

Delayed purchase financing is eligible when:

- The property was purchased by a borrower for cash within 90 days of the loan application.
- The original purchase transaction was an arms-length transaction.
- The source of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property).
- The maximum LTV/CLTV ratio for the transaction is based upon the lower of the current appraised value or the property's purchase price plus documented improvements.
- The preliminary title search or report must confirm that there are no existing liens on the subject property

The transaction is considered cash-out; cash-out pricing adjustors apply.

The new loan amount can be no more than the actual documented amount of the borrower's initial investment subject to the maximum LTV/CLTV for cash-out transactions.

6.4 PROPERTIES LISTED FOR SALE

For cash-out refinances only:

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

6.5 CEMA LOANS

Consolidation, Extension, and Modification Agreement (CEMA) loans are available for New York refinance loans only. Lendz Financial will not accept any Lost Note Affidavits on CEMA loans

6.6 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. Loan Originator should not rely on Lendz Financial categorization of refinance loans for purposes of determining whether compliance with the provisions of Texas Constitution Section 50(a)(6) is required. Loan Originators should consult with their counsel to determine the applicability of Texas Constitution Section 50(a)(6) to a specific transaction.

6.7 INTERESTED PARTY CONTRIBUTIONS

Occupancy	LTV	Max Percentage
Primary, 2 nd Home, Investment	≤75%	9%
Primary, 2 nd Home, Investment	75.01-85.00	6%

6.8 SUBORDINATE FINANCING

Lendz Financial allows subordinate financing provided the following conditions are met:

- The subordinate financing doesn't have a negative amortization or interest only feature.
- Subordinates with prepayment penalties are not allowed.
- All subordinate financing must be from a Financial Institution.
- Subordinate financing payment must be included in the DTI calculation.
- Max LTV/CLTV cannot exceed Max LTV in Credit Matrix.
- Required Documentation for subordinate financing:
- Copy of the Note
- Copy of the Subordination Agreement

6.9 ESCROW – IMPOUND ACCOUNTS

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

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

- LTV 80% or less.

6.10 PRE-PAYMENT PENALTY

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 cross-collateral, 5-8 unit, or 2-8 mixed use.)
- A fixed percentage of no less than 3% - 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.
- Declining structures that do not exceed 5% and do not drop below 3% in the first 3 years. For example: (5%/4%/3%/3%/3%) or (5%/4%/3%/2%/1%) – The prepayment charge will be equal to the percentage in effect 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.

The following state restrictions apply:

- Prepayment penalties are not allowed in AK, KS, MI, MN, NM and RI.
 - Restrictions do not apply to DSCR 5-8 Unit/2-8 Mixed Use properties.
- Prepayment penalties are not allowed on loans vested to individuals in IL and NJ.
- Pennsylvania – Prepayment penalties are not allowed on loan balances less than an adjusted value as determined by the Dept of Banking & Securities. For the calendar year 2023 the base figure amount is \$312,159.
- Only declining prepayment penalty structures are allowed in MS.

6.11 LEASE OPTION TO PURCHASE

- Primary residence only
- Borrowers may apply a portion of the rent paid to their required down payment, closing costs or minimum borrower contribution if the rent credits were agreed upon in the original Lease Purchase Agreement.
- Credit for the down payment is determined by using the lesser of the rent credits agreed to or by calculating the difference between the market rent and the actual rent paid for the last 12 months.
- The market rent is determined by the appraiser in the appraisal report for the subject property.
- Documentation Requirements:
 - A copy of the notarized rental/purchase agreement evidencing a minimum original term of at least twelve (12) months, clearly stating the monthly rental amount, and specifying the terms of the lease.
 - Copies of the Borrower's cancelled checks or money order receipts for the last 12 months evidencing the rental payments.

- The Closing Disclosure must show the actual purchase price as reflected in the Lease Purchase Agreement, while the loan-to-value will be based on the appraised value.

6.12 CONTINUITY OF OBLIGATION

- An acceptable continuity of obligation exists when any of the following are present:
 - At least one borrower obligated on the new loan must be a borrower obligated on the existing loan being refinanced;
 - At least one borrower must have been on title for a minimum of six months, and has made the most recent six months payments
 - At least one borrower must be on title and has made the most recent 12 months documented payments
 - At least one borrower has recently inherited or was legally awarded the property through a divorce or separation;
 - Continuity of Obligation is met when a borrower is at least 25% owner of an entity and is refinancing from a natural person to an entity or vice versa.

6.13 FLIP TRANSACTION

Applies to covered HPML transactions for owner occupied only.

- Qualified Mortgages (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.

6.14 1031 EXCHANGE

- Funds held by a 1031 administrator/agent are permitted for down payment and closing costs.
- Allowed on investment purchases only.
- Reverse 1031 exchanges not allowed.
- Must be following Internal Revenue Code Section 1031
- Excess proceeds cannot be used to satisfy reserve requirements unless liquidated
- Documented by accommodator instructions, fully executed exchange agreement at closing, and settlement statement.
- NOTE: 2-4-unit properties where one of the units is occupied by the customer are not considered investment properties and therefore are not eligible.

6.15 SOLAR PANEL REQUIREMENTS

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 for purchase. 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 repaid 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, the underwriter 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.

6.15.1 REQUIREMENTS FOR PROPERTIES WITH SOLAR PANELS THAT ARE OWNED

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

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 in 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.

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 terms 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.

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.

6.15.2 REQUIREMENTS FOR 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 lender must obtain and review copies of the lease or power purchase agreement.
- The monthly lease payment must be included in the DTI ratio calculation unless the lease is structured to:
 - Provide delivery of a specific amount of energy at a fixed payment during a given period, and
 - Have a production guarantee that compensates the borrower on a prorated basis in the event the solar panels fail to meet the energy output required for in the lease for that period.
- Payments under power purchase agreements where the payment is calculated solely based on the energy produced may be excluded from the DTI ratio.
- The value of the solar panels cannot be included in the appraised value of the property.

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

6.16 INELIGIBLE TRANSACTIONS

- Construction Loans
- Land Contracts
- Builder Bailout & Model leasebacks
- Conversion Loans
- Community down payment assistance / equity sharing
- Borrower/builder refinance of construction loans or free and clear are ineligible unless investment property with a Prepayment Penalty

- Reverse 1031 exchanges
- Escrow holdbacks

7.0 CREDIT ELIGIBILITY

7.1 CREDIT REPORT

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) unfreeze 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.

7.2 GAP CREDIT REPORT OR “SOFT PULL”

A gap credit report or Undisclosed Debt Monitoring report is required no more than 10 days prior to the loan closing or any time after closing.

- Any new tradeline with a balance must be included in determining the DTI ratio.
- Business purpose DSCR transactions are excluded from this requirement.

7.3 CREDIT SCORES

To determine the Representative Credit Score, select the middle score when three (3) agency scores are provided and the lower score when only two (2) agency scores are provided.

7.4 TRADELINES

If the primary borrower has three (3) credit scores, the minimum tradeline requirement is waived.

OR

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.

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 requirements below:

- 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®
- collection accounts
- self-reported tradeline any liabilities in deferment status
- foreclosures
- deed-in-lieu of foreclosure
- accounts discharged through bankruptcy
- short sales
- authorized user accounts
- pre-foreclosure sales
- charge-offs

7.5 FRAUD REPORTING

Data integrity is crucial to quality loan file delivery and mitigation of fraud risk. All parties involved in the transaction must be included in the fraud report performed by an automated fraud and data check vendor solution.

Requirements:

- 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 member(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. Lendz Financial may request additional documentation to address the high fraud risk.
- Fraud Reports for loans secured by multiple properties (Cross Collateral) do not need to reference every property, all other requirements apply.

7.6 OFAC SEARCH

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.

7.6.1 INDIVIDUALS

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.

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, Settlement Agents.
- When the borrower is an entity, all Guarantors and all member(s)/manager(s) of the entity must be included in the OFAC search.

7.6.2 COUNTRIES

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:

- The OFAC sanctioned countries list must be reviewed to determine if the Borrower/Guarantor country of origin is located on the 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, member(s)/manager(s) who are not Guarantors do not have to be screened against the OFAC sanctioned country list.
- SDN search: the prohibition against Venezuelan borrowers only applies to individuals and entities identified on the OFAC specially designated nationals (SDN) list.
 - The OFAC SDN sanctions list has three programs that are to be searched. If search results for the individual and/or entity are accompanied by any of the following three programs, the individual and/or entity will be ineligible:
 - Venezuela
 - Venezuela – EO13850
 - Venezuela – EO13884
- Sanctioned countries list: Venezuela's inclusion on the OFAC sanctioned country list does not signify that all Venezuelan borrowers are ineligible. OFAC eligibility for Venezuelan borrowers is determined through the OFAC specially designated nationals (SDN) search.

7.7 CREDIT INQUIRIES

Credit inquiries listed on the report within 90 days of the report date must be addressed by the borrower with a letter of explanation. If no credit was extended, borrower must state the purpose of the inquiry. If new credit was extended, borrowers must provide documentation on the current balance and payment. New payment terms are to be included in the DTI ratio. **DSCR is excluded from addressing credit inquiries.**

7.8 HOUSING HISTORY

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

7.8.1 Mortgage Verification

MORTGAGE(S) ON CREDIT REPORT

The lender 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 lender 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.)

MORTGAGE(S) NOT REPORTING ON CREDIT REPORT

The lender must document mortgage history not reporting on credit report with all the following:

- Request for Verification of Mortgage Form completed by the creditor:
 - On owner occupied and non-DSCR investment transactions a 12-month mortgage history is required for all properties.
 - On DSCR transactions a 12-month mortgage history is required for the borrower/guarantor's primary residence and subject property only (if refinance).
 - 6 months proof of borrower payment is required when a VOM is completed by a private party.
- Copy of Note with terms of the loan:
 - Notes with a balloon feature with an expired maturity date exceeding 30 days require an extension to avoid being counted as delinquent.
- If subject transaction is a refinance, mortgage payoff statement is required from the creditor:
 - Payoff statement that reflects late fees, deferred balance, or delinquent interest are subject to housing history and/or credit event criteria.

7.8.2 Rental Verification

A 12-month rental history is required for all Lendz Financial programs when the borrower is renting their current primary residence. The following documents are required:

- A third-party Verification of Rent (VOR) is required for any file when the borrower is currently renting.
 - Verification of Rent must be verified by the loan processor and recorded as a processor certification;
 - Processor must attest that they contacted the individual that completed the VOR and verified the payment and rental information.
- A copy of the lease agreement, including all relevant addendums and renewals is required.

7.8.3 Living Rent Free

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

- Any available portion of a 12-month housing history must be paid as agreed.
- Borrower(s) who own their primary residence free and clear are not considered living rent-free.
- Borrower(s) who sold a primary residence within the past six (6) months and are currently residing rent-free until subject transaction closes are not considered living rent-free.
- DSCR transactions are eligible if the borrower owns any real estate OR live with a spouse who owns the primary residence.

7.8.4 Departure Residence

If the borrower's current principal residence is pending sale but the transaction will not close prior to the subject transaction, the current PITIA and proposed PITIA must be used in qualifying the borrower. The current PITIA may be excluded provided the credit file is documented with the following:

- The executed sales contract for the current residence, and
- Confirmation that any financing contingencies have been cleared.

If the borrower plans to convert their departure residence to a rental property, the current PITIA and proposed PITIA must be used in qualifying the borrower.

- The current PITIA may be offset using 75% of the lower of actual or market rent.

The rental income must be documented with all the following:

- Market Rent Analysis, Single Family Comparable Rent Schedule (Fannie Mae® Form 1007)
- Executed current lease and verification of security deposit and first month's rent deposited to the borrower's account
- The lease agreement must be for a minimum 12-month term (the lease may not be a family member).

7.8.2 BALLOON NOTE WITH MATURITY DEFAULT

For Notes with a balloon feature with an expired maturity date exceeding 30 days will be treated as a delinquency (1x30) and not a housing event, but only within 180 days of maturity.

7.9 CREDIT EVENTS

7.9.1 BANKRUPTCY

Recent bankruptcies are allowed, all bankruptcies must be settled at the time of application.

Evidence of bankruptcy resolution is required. The length of time is measured from the discharge/dismissal date to the note date.

All bankruptcies must be discharged or dismissed for a minimum number of months from the closing date as shown on the Matrix.

Chapter 13 bankruptcy seasoning will be measured from the filing date not the discharge date.

See Matrix for specific details.

No multiple credit/housing events (FC, BK, SS/DIL) in the last seven (7) years.

7.9.2 FORECLOSURE

Seasoning of a short sale or deed-in-lieu is measured from the settlement date (sale or final property transfer) to the note date.

Short sale or deed-in-lieu must be seasoned for the minimum number of months from closing date (see Matrix for details).

No multiple credit/housing events (FC, BK, SS/DIL) in the last seven (7) years.

7.9.3 SHORT SALE / DEED-IN-LIEU

Seasoning of a short sale or deed-in-lieu is measured from the settlement date (sale or final property transfer) to the note date.

Short sale or deed-in-lieu must be seasoned for the minimum number of months from closing date (see Matrix for details).

No multiple credit/housing events (FC, BK, SS/DIL) in the last seven (7) years.

7.9.4 FORBEARANCE, MODIFICATION OR DEFERRALS

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

Greater than 12 Months from Note Date:

- Forbearance, loan modifications, or deferrals (including COVID-19 related events) completed or reinstated greater than 12 months from the Note date of the subject transaction and having a 0x30x12 Housing History are allowed under all programs including Platinum.

Within 12 Months of Note Date:

- Forbearance, loan modifications, or deferrals (including COVID-19 related events) completed or reinstated within 12 months of the Note date of the subject transaction will be treated as a 0x90x12 under Gold Housing History for eligibility and pricing.
- Forbearance, loan modifications, 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 Platinum & DSCR
- Refer to DSCR – DSCR and Foreign National Investment matrix for applicable Housing History and Credit Event Seasoning restrictions related to these programs.

7.9.5 DEFAULTED TIME SHARES

Timeshares including delinquencies are treated as installment loans and not a housing event.

7.10 CONSUMER CREDIT

7.10.1 CREDIT REPAIR/RESCORE

- No private credit repair companies allowed.
- Rapid rescore of credit permitted for confirmation of pay down and/or payoff of debt and correction of reporting errors
- Updated credit score permitted for qualifying

7.10.2 CREDIT COUNSELING

Borrowers currently enrolled in credit counseling or debt management plans are not permitted.

7.10.3 AUTHORIZED USER ACCOUNTS

- Authorized Users of Credit. Credit report tradelines in which the applicants are “authorized users” may not be considered in the underwriting decision except in certain circumstances such as those listed here:
 - Another borrower in the mortgage transaction is the owner of the tradeline.
 - The borrower is an authorized user on a spouse’s credit report tradeline.
 - The borrower can provide written documentation that he or she has made at least 50% of the payments of the monthly payment on the account for at least 12 months preceding the date of the application.

7.10.4 OBLIGATIONS NOT APPEARING ON CREDIT

7.10.4.1 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.

7.10.4.2 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.

7.10.5 COLLECTIONS, JUDGMENTS, LIENS, CHARGE-OFFS

- All Judgments affecting title or liens affecting title must be paid
- Non-title charge-offs and collections open <2 years and greater than \$10,000 (individually or aggregate) must be paid
- Medical collections are not required to be paid
- IRS tax payment plans approved by the IRS are permitted if current and do not carry a lien on any property.

7.10.6 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 lender must confirm that it verified that the obligation was actually paid out of company funds to exclude the debt.

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

Most recent six (6) months of cancelled checks drawn against the business account

- Tax returns reflecting the business expense deduction
- Business bank account statement showing assets remaining after funds to close and reserve requirements are deducted, with a balance greater than or equal to the balance of the debt.

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

7.10.7 CONTINGENT LIABILITY

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.

7.10.8 COURT-ORDERED ASSIGNMENT OF DEBT

When a borrower has outstanding debt what was assigned to another party by court order (such as under a divorce decree or separation agreement) and the creditor does not release the borrower from liability, the borrower has a contingent liability. The underwriter is not required to count this contingent liability as part of the borrower's recurring monthly debt obligations. The underwriter is not required to evaluate the payment history for the assigned debt after the effective date of the assignment. The underwriter cannot disregard the borrower's payment history for the debt before its assignment.

7.10.9 LOANS SECURED BY FINANCIAL ASSETS

When a borrower uses his or her financial assets—life insurance policies, 401(k) accounts, individual retirement accounts, 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 lender 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 an exception to the above policy and must be included when calculating the debt-to-income ratio.

8.0 INCOME AND EMPLOYMENT

8.1 EARNINGS TRENDS

Unless otherwise noted in the Lendz Financial Guidelines or in a specific Lendz Financial Program Matrix, all borrowers should have a two-(2) year income history from employment or other allowable sources. The expectation for loans relying on two years of documented income is that income year over year is stable or shows a trend with a gradual increase. This type of income should be averaged for the borrower(s) gross monthly income used to qualify. A reasonable expectation should be present that the borrower(s) source(s) of income will continue for the foreseeable future.

In cases where a borrower(s) income is declining or shows unusual or unexpected fluctuation, careful consideration must be given to the income being reviewed and the reason for the decline or fluctuation. Proper discretion must be exercised to determine the extent or probability of impairment of the borrower's income and earning ability moving forward. Conservatively, the lesser income should be used when a declining situation is present. A letter of explanation may be required from the borrower(s) to support the circumstances. Borrowers that show continued declining income without a reasonable explanation or proof that the trend will not continue are not eligible to use that income for qualification.

8.2 COMBINING INCOME TYPES

Income documented through Alternative Documentation programs may be combined with other income sources that are documented as Full Documentation but not associated with self-employment, such as a spouse employed as a wage earner. When wage income is combined with Alternative Documentation, a tax return is not required as this would invalidate the bank statements. Form 4506-C is still required; however, Box 8 should be checked to obtain a transcript of the W-2 earnings only. Combined income documentation types are intended for separate Borrowers on the same loan (husband and wife as example).

8.3 DEBT-TO-INCOME RATIO (DTI)

The Debt-to-Income (DTI) ratio is calculated and reviewed for adherence to Lendz Financial 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:

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

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

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

The maximum DTI ratio for all income documentation types is 50%.

8.4 RESIDUAL INCOME

Residual Income is the amount of monthly income remaining once a borrower has paid all monthly debt obligations. Residual Income = Gross Monthly Income minus total monthly debt. Refer to the appropriate Lendz Financial Matrix for any residual income requirements for the specific program.

8.5 STANDARD DOCUMENT INCOME

8.5.1 WAGE EARNER – 1 OR 2 YEARS

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.

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

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 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

8.5.2 SELF-EMPLOYED – 1 OR 2 YEARS

A borrower is considered self-employed if their ownership percentage is $\geq 25\%$. Borrowers on a loan with a cumulative ownership $>25\%$ are eligible.

Document Requirements:

- Ownership percentage must be documented via CPA letter, Operating Agreement, or equivalent
 - CPA must be independent 3rd party and have no relationship to the borrower.
 - Letter must not contain qualifying language
 - A Company name change, or re-organization is considered continuous if within last 2 years or restructure (i.e. from sole proprietor to LLC, S-Corp, etc.)

Minimum history of Self-Employment:

- Income from self-employment is considered stable and effective if the borrower has been self-employed for two or more years. Less than 2 years self-employment history can be considered with documentation of a minimum of two years employment history in the same line of work or a related profession. Less than one year may not be considered as an effective income.

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 for personal and corporate (IRS Form 1120) returns are required.

If the borrower pays themselves wage income, a YTD paystub must be included in the file.

When analyzing tax returns, the following may be added back to the applicant's income calculation:

- Depreciation
- Depletion
- Business use of home

- Amortization/casualty loss
- Ordinary income (loss) from other partnerships
- Nonrecurring other (income) loss
- Any expense(s) that can reasonably be documented to be one-time and non-recurring
- Net operating loss carryforwards from years prior to the tax returns provided

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. 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.

8.5.3 DOCUMENTATION REQUIREMENTS

Wage / Income Earner Type				
Required Documentation	24 Mo Full Doc Wage Earner	12 Month Full Doc Wage Earner	24 Mont Full Doc Self-employed	12 Month Full Doc Self-employed
Paystubs	Most recent dated within 30 days of application date	Most recent dated within 30 days of application date	N/A	N/A
W-2 Forms	Most recent 2 years	Most recent 1 year	N/A	N/A
VVOE	10 business days prior to note date	10 business days prior to note date	20 business days prior to note date	20 business days prior to note date
Third Party Verification of Business	N/A	N/A	Verification Business has been established min of 2 years	Verification Business has been established min of 2 years
Personal Tax Returns	Most recent 2 years when qualifying using only rental income or self-employment	Most recent 1 year when qualifying using only rental income or self-employment	Most recent 2 years PLUS YTD P&L	Most recent 1 year PLUS YTD P&L
Partnership Returns	N/A	N/A	Most recent 2 years PLUS YTD P&L	Most recent 1 year PLUS YTD P&L
K-1s (if applicable)	N/A	N/A	Most recent 2 years PLUS YTD P&L	Most recent 1 year PLUS YTD P&L

Corporate Tax Returns (if applicable)	N/A	N/A	Most recent 2 years PLUS YTD P&L	Most recent 1 year PLUS YTD P&L
*Note: if tax returns are on extension, then the borrower will need to supply their most recent filed tax return and a signed P&L thru the most recent quarter (if applicable) and a P/L from previous year.				

8.5.4 DETERMINING INCOME – MONTHLY SALARY FOR WAGE EARNERS

These guidelines are to assist with the evaluation and determination of the borrower's income and should be consistently applied. The applicant's monthly income will be determined by the documentation provided. Calculated figures will be used to determine the borrower's debt-to-income ratio.

Borrowers can receive income from many different sources and different pay structures. The following table describes methods used in determining a borrower's average monthly income based on these income source variations. Follow the calculations below to arrive at a borrower's monthly base income.

See the table below:

Wage Period	Pay Amount	Function	Annual True- up	Function	Monthly Income
Weekly	Weekly gross pay	×	52 weeks	÷	12 months
Bi-Weekly	Bi-Weekly gross pay	×	26 pay periods	÷	12 months
Twice monthly	Twice monthly gross pay	×	24 pay periods	÷	12 months
Monthly (a)(b)	Monthly gross pay	N/A	N/A	N/A	N/A
Hourly/Variable hourly	Hourly gross pay rate x Avg # of hours per week	×	52 weeks	÷	12 months
a. Position/job must be verified as a 12-month position b. Income must be consistent with reported annual income					

8.5.5 OTHER SOURCES OF INCOME

In cases where the borrower(s) receives income from other sources, the guidelines default to the requirements set forth in the Fannie Mae Selling guide. The other sources of income include:

- Bonus income
- Commission income
- Overtime
- Alimony or child support
- Auto Allowance
- Capital Gains

- Disability Income – Long Term
- Employment by a relative
- Employment offers or contract for employment
- Foreign Income
- Foster Care
- Housing/Parsonage Income
- Interest and dividends
- Non-taxable income
- Notes receivable income
- Social Security
- Pension, retirement or annuity income
- Restricted stock units
- Royalty Income
- Second or part time income
- Teacher income
- Tip income
- Trust income
- Unemployment benefits
- VA benefits

8.5.6 RENTAL INCOME

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

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

- Investment Property
 - If the monthly qualifying rental income (as defined above) minus the full PITIA is positive, it must be added to the borrower's total monthly income.
 - If the monthly qualifying rental income minus PITIA is negative, the monthly net rental loss must be added to the borrower's total monthly obligations.
 - The full PITIA for the rental property is factored into the amount of the net rental income (or loss); therefore, it should not be counted as a monthly obligation.
 - The full monthly payment for the borrower's principal residence (full PITIA or monthly rent) must be counted as a monthly obligation.
- Properties defined as a one-unit property with an accessory unit (ADU) may use rental income from the accessory unit subject to the following:
 - Appraisal to reflect zoning compliance is legal
 - Permit is not required to establish zoning compliance
 - Appraisal to include at least one comparable with an accessory unit
 - At least one sales comparable with an ADU and at least one rental comparable with an ADU is required.
 - Multiple accessory units are not permitted
 - **Refinance** - Market rent for the necessary unit should be documented on FNMA 1007, and the file must include a copy of the current release with two months proof of current receipt.
 - **Purchase** - Owner-Occupied/2nd Home: Income from the accessory unit may not be used as qualifying income. Non-Owner Occupied: Use the lesser of the market rent on FNMA Form 1007 or actual rent.
- Landlord history is not required to use rental income under Full Doc or Bank Statement Programs only. Must have history under DSCR Program.
- FNMA Form 1007 is required for all non-owner-occupied transactions.
- Rental Income - Departing Residence
 - Copy of executed lease and verification of security deposit and first-month's rent deposited to borrower's account.
 - May not be leased to a family member.
 - Lease agreement must be for a minimum 12-month term

8.5.7 INELIGIBLE INCOME SOURCES

- Boarder Income
- Educational Benefits
- Gambling Winnings

- Mortgage Credit Certificates
- Mortgage Differential Payments
- Refunds of federal, state, or local taxes
- 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 ALTERNATIVE DOCUMENTATION INCOME

Alternative Documentation may be used to determine qualifying income both alone and in conjunction with other documentation options.

8.6.1 BANK STATEMENT PROGRAM

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

The Lendz Financial Business Bank Statement calculator is available on the www.lendzfinancial.com website.

See the Lendz Financial Matrices for maximum LTV and DTI.

Borrowers must be self-employed for at least two (2) years. However, a borrower may qualify with less than two (2) years but more than one (1) year if the borrower can document at least two (2) years of documented previous successful employment in the same line of work in which the person is self-employed or related occupation or one (1) year of employment and formal education or training in the same line of work. Employment section of the URLA must be completed with a minimum of two (2) years employment history.

The business being used to source income must be evidenced by one of the following:

- CPA, EA, PTIN, or CTEC 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.

Ineligible sources of income:

- Nonprofit Entity
- Funds/Deposits in a IOLTA (Trust)/UGMA account

Tax returns and 4506-C are not required for the bank statement program.

Bank Statement income may be combined with other income sources that are documented as Standard Doc but not associated with self-employment, such as wage income from spouse or domestic partner. When wage income is combined with Bank Statements, a tax return is not required for the standard full income documentation. If the 4506-C form is provided, Box 8 should be checked to obtain a transcript of W-2 earnings.

In addition to the factors described in the Income Analysis section of this guide, 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 deposits.
- Changes in deposit patterns must be explained.
- Income documented separately, but included as deposits in the statement under review, must be backed out of deposits.

8.6.1.1 PERSONAL BANK STATEMENTS

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

8.6.1.1.1 DOCUMENTATION REQUIREMENTS

12 or 24 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. (If no business bank statements are provided the PERSONAL statements will be treated as BUSINESS statements – subject to expense ratio etc. as covered in the business and co-mingled bank statement review section.

Verify that the borrower owns 25% of the business by providing one of the following:

CPA, EA, PTIN, or CTEC letter, Tax Preparer letter, operating agreement, or equivalent, reflecting the borrower's ownership percentage.

A Lendz Financial Business Narrative is required – must include details relating to the size and operating profile of the business.

If two different bank account statements are being used, there must be a definitive documented closing date for one account and opening date for the second account. The opening and closing dates may not overlap for a period of more than 1 month.

8.6.1.1.2 CALCULATION METHOD

When business bank statements are provided 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.

8.6.1.2 BUSINESS BANK STATEMENTS OR CO-MINGLED STATEMENTS

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

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

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

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

8.6.1.2.1 DOCUMENTATION REQUIREMENTS

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

Verify that the borrower has ownership of at least 25% of the business by providing one of the following:

- CPA, EA, PTIN, or CTEC letter, Tax Preparer letter, operating agreement, or equivalent, reflecting the borrower's ownership percentage.

All other owners of the business not party to the loan must provide a signed and dated letter acknowledging the borrower's access to the business account for loan qualification.

Net income from the analysis of the bank statements is multiplied by the borrower's ownership percentage to determine the borrower's qualifying income.

A Lendz Financial Business Narrative is required – must include details relating to the size and operating profile of the business.

If two different bank account statements are being used, there must be a definitive documented closing date for one account and opening date for the second account. The opening and closing dates may not overlap for a period of more than 1 month.

8.6.1.2.2 CALCULATION METHOD

Option 1: Standard Expense Ratio – (50%)

Documentation Requirements:

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

Income Calculation Method:

Total deposits from all bank statements, less any inconsistent deposit(s), multiplied by 50%, multiplied by ownership percentage, divided by the number of bank statements reviewed.

Deposits x (.50) x (ownership %) / 24 or 12 = qualifying income

Example: \$360,000 x .50 = \$180,000 x 1.00 = \$180,000 / 12 = \$15,000

Option 2: Business Expense Statement Letter

Documentation Requirements:

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

An expense statement letter specifying business expenses as a percent of the gross annual sales/revenue, prepared or reviewed and acknowledged by a CPA/accountant, IRS Enrolled Agent, PTIN or licensed tax preparer.

The preparer must attest they have prepared the borrower's most recent tax return or attest that they have audited the business financial statements or reviewed working papers provided by the borrower and provide the borrower's ownership percentage – this only applies if the tax preparer is a CPA/Accountant, IRS Enrolled Agent or licensed tax preparer. If the preparer is a PTIN, the PTIN must attest they have filed the most recent tax returns.

Tax Professional must verify the borrower's ownership percentage

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

8.6.1.3 NON-SUFFICIENT FUNDS (NSF)

- Excessive NSF activity in the past 12 months must be satisfactorily explained by the borrower. Excessive NSF or overdraft activity may preclude the borrower from bank statement eligibility. The underwriter will determine if the NSF/overdrafts are excessive.
- 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.

8.6.2 12- OR 24-MONTH PROFIT AND LOSS (P&L) ONLY STATEMENT

See the Lendz Financial 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, EA, PTIN, or CTEC 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.

Ineligible sources of income:

- Nonprofit Entity
- Funds/Deposits in a IOLTA (Trust)/UGMA account

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

P&L income may be combined with other income sources that are documented as Standard Doc but not associated with self-employment, such as wage income from spouse or domestic partner. When wage income is combined with P&L income, a tax return is not required for the standard full income documentation. If the 4506-C form is provided, Box 8 should be checked to obtain a transcript of W-2 earnings.

8.6.2.1 DOCUMENTATION REQUIREMENTS

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

- 12 or 24-Month CPA, EA, PTIN or CTEC compiled P&L Statement
- **If a 24-month P&L Statement is used, it is required for the preparer to separate the 24 months into two-12-month P&L statements.**
 - **A single 24-month P&L statement will NOT be accepted.**
- Minimum 25% business ownership is required
- 12 or 24-month (P&L) prepared/compiled and signed by a CPA (proof of CPA current state license required, PTIN (proof EA currently active on IRS web site) or EA (proof EA currently active on IRS web site), CTEC (proof CTEC currently active on CTEC web site) dated within 30-days of the loan application, representing total business sales and expenses for the time period covered, and

The preparer must attest they have prepared the borrower's most recent tax return or attest that they have audited the business financial statements or reviewed working papers provided by the borrower and provide the borrower's ownership percentage. – this only applies if the tax preparer is a CPA/Accountant, IRS Enrolled Agent or licensed tax preparer. If the preparer is a PTIN, the PTIN must attest they have filed the most recent tax returns.

- Qualifying income is the net income from the P&L divided by the time period covered (12 or 24-months) multiplied by the borrower's ownership percentage.

- Expenses on the P&L must be reasonable for the industry, Lendz Financial reserves the right to require additional information.
- 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 1099 ONLY INCOME

See the Lendz Financial Matrices for maximum LTV and DTI.

Permitted for individual(s) earning 100% commission or for independent contractors. 1-year or 2-years of IRS Form 1099 and 1099 transcript(s).

One of the following Business expense analysis methods:

- 90% Net Margin (10% Expense Factor), or
- 3rd Party prepared P&L (CPA, EA, PTIN, 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 to support ongoing receipt of income reflected on:
 - Checks or a single check stub(s) with YTD totals or;
 - 3 months Bank statements or;
 - YTD earnings statements from the 1099 Business
- YTD earnings from deposits must be at least 80% of qualifying income
 - Earnings impacted by seasonality may be considered with documented compensating factors
- YTD earnings may be averaged with validated 1099(s) with a 25% maximum increase
- 1099 transcripts are required. Alternate evidence required if "No Return Found".

8.6.4 WRITTEN VERIFICATION OF EMPLOYMENT (WVOE) ONLY

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

- Two-year history with same employer is required.

- Completed Fannie Mae® Form 1005
- Minimum credit score: See the Lendz Financial Matrices for minimum credit score.
- Primary Residence and second home Only
- 24-month 0x30 housing history required.
- Paystubs, Tax Returns, 4506-C, or W-2's not required.
- Eligible for Platinum and Gold only - see Loan/LTV matrix for restrictions.
- Must be completed by Human Resource, Payroll Department or Officer of the Company.
- Two (2) Months Personal Bank Statements required to support the WVOE. The bank statements must reflect deposits from the employer supporting at least 65% of gross wage/salary reflected on the WVOE.
- First-Time Home Buyer maximum LTV 80%, no gift funds allowed.
- Borrower(s) employed by family members or related individuals are not eligible.
- An internet search of the business is required with documentation to be included in the credit file to support the existence of the business.
- Other sources of income, documented using Alt Doc, are eligible and can be used to determine total household qualifying income.
 - For the borrower utilizing the WVOE, no other active employment income may be utilized, passive income such as rental income can be included.

8.6.5 ASSET UTILIZATION

Our asset-based programs are designed to meet the Ability to Repay ("ATR") requirements. This is accomplished by requiring a debt to income ("DTI") in our Asset Depletion program and the requirement of a residual income calculation in our Asset Qualifier program. The unrestricted liquid assets of both programs can be comprised of stocks / bonds / mutual funds, vested amount of retirement accounts and bank accounts.

The utilization of financial assets will be considered as Borrower income to qualify for their monthly payments.

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.

- See Lendz Financial Matrices for the max LTV
- Max 43% DTI
- Minimum 680 credit score

The following are not permitted when qualifying under the Asset Utilization program:

- Cash-out
- Gift funds
- Business Assets

- Trust Assets
- Foreign Assets
- Non-occupant co-borrower

8.6.5.1 QUALIFICATION METHOD

The minimum Eligible Assets required are the lowest of \$1,000,000 or 150% of the loan balance. Qualifying income based upon Total Assets Eligible for Depletion, less down payment, less out of pocket closing costs, less required reserves, divided by 84. Maximum DTI 43%.

8.6.5.2 REQUIRED DOCUMENTATION

- All individuals listed on the asset account(s) must be on the Note and Mortgage;
- Assets considered for this program must be verified with most recent three (3) monthly account statements, quarterly statement, or a VOD;
- Assets must be seasoned 120-days; unless assets are proceeds from the sale of a home and can be documented as such.
- Income other than Asset Utilization must be documented in accordance with the Platinum program.

8.6.5.3 ELIGIBLE ASSETS

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, and US Treasuries with maturity < 1-year;
- 100% of the cash surrender value of life insurance less any loans may be considered for assets;
- 70% of Stocks, Bonds, and Mutual Funds;
- 70% of Retirement Assets: Eligible if the borrower is of retirement age (at least 59 ½);
- 60% of Retirement Assets: Eligible if the borrower is not of retirement age.
- Assets are held in a revocable trust where the trustee to the trust is the borrower.
- Assets in an irrevocable trust where the borrower is the beneficiary, and the borrower has immediate access to the assets of the trust.
- Based upon the assets held in the trust, the above asset percentages apply.

8.6.5.4 INELIGIBLE ASSETS

- 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.

8.6.6 ALTERNATIVE DOCUMENTATION – RENTAL INCOME

Rental income may be included in loan qualification for Alt 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.
 - 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 (1007/1025), reflecting long term rental rates, may be used for qualifying if there is not a current lease or assignment of lease.
- **Short Term Rental:**
 - Property leased on a short-term basis utilizing an on-line service such as Airbnb gross monthly rents can be determined by using a 12-month look back period to account for seasonality.
 - Rents for the look back period must be documented with either 12-monthly statements or an annual statement provided by the on-line service. In the event the borrower owns a single rental property, bank statements with deposits clearly identified/sourced as rental income can be substituted. If two or more rental properties are owned, statements from an online service must be provided to associate rents received with the specific property.
 - 75% of the verified monthly rental income can be used to offset the PITIA of the rental property.
 - A screen shot of the online listing must show the property(s) activity marketed as a short-term rental
- **Application of Rental Income:**
 - **Primary Residence**
 - The monthly qualifying rental income (as defined above) must be added to the borrower's total monthly income. (The income is not netted against the PITIA of the property.)
 - The full amount of the mortgage payment (PITIA) must be included in the borrower's total monthly obligations when calculating the debt-to-income ratio.
 - **Investment Property**
 - If the monthly qualifying rental income (as defined above) minus the full PITIA is positive, it must be added to the borrower's total monthly income.
 - If the monthly qualifying rental income minus PITIA is negative, the monthly net rental loss must be added to the borrower's total monthly obligations.

- 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.

8.7 DEBT SERVICE COVERAGE (INVESTMENT PROPERTY)

Debt Service Coverage Ratio transactions are available to experienced investors purchasing or 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.

8.7.1 ELIGIBLE BORROWERS

- U.S. Citizens: as defined by USCIS.
- Permanent Resident Aliens: A Permanent Resident Alien is an individual who is not a U.S. Citizen but maintains legal, permanent residency in the United States. A Permanent Resident Alien typically maintains an alien registration card ("green card"). Alien Registration Card I-151 with no expiration or accompanied by INS form I-751
- Non-Permanent Resident Aliens: A Non-Permanent Resident Alien is an individual who is not a U.S. Citizen but lives in the U.S. under the terms of an applicable Visa. Acceptable Visas for loan purchase are listed below. Due to the inability to compel payment or seek judgment, transactions with individuals with diplomatic immunity who are not subject to United States jurisdiction are not eligible. Non-Permanent Resident Aliens must be employed in the U.S. for the last 24 months and document lawful residency as follows:
 - Foreign National: permitted with proof of primary home ownership.
 - Borrowers who are residents of countries which participate in the State Department's Visa Waiver Program (VWP) will not be required to provide a valid visa.
 - Non-Permanent Resident Aliens must have resided in the U.S. for the last 24 months and document lawful residency as mentioned in section: 3.3 NON-PERMANENT RESIDENT ALIENS.

8.7.2 BORROWER EXPERIENCE

EXPERIENCED INVESTOR

- An experienced residential investor is a borrower/guarantor having a history of owning and managing non-owner occupied residential real estate for at least one (1) year in the last three (3) years. Ownership of commercial income producing property may also be used as evidence of investor experience.

- For files with more than one borrower/guarantor, only one borrower/guarantor must meet the definition.
- Ownership history can be documented for other REO with one of the following:
 - Mortgage history on credit report
 - Property profile report
 - Other 3rd party documentation (e.g., Fraud Report, Settlement Statement, Closing Disclosure)

Experienced investors are eligible for all DSCR transactions.

FIRST-TIME INVESTOR

First-Time Investor is a borrower not meeting the Experienced Investor definition, but who currently owns a primary residence.

- Ownership history can be documented with one of 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 are eligible for DSCR 1-4 Family Residential Property transactions only.

8.7.3 1-4 FAMILY RESIDENTIAL PROPERTY

8.7.3.1 PROPERTY INCOME ANALYSIS

Gross monthly rents are used to determine the DSCR. A 1007 or 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.

8.7.3.1.1 LONG TERM RENTAL DOCUMENTATION AND DSCR CALCULATION

- Purchase Transactions
 - Monthly Gross Rents are the monthly rents established on FNMA Form 1007 or 1025 reflecting long term market rents.
 - A vacant or unleased property is allowed without LTV restriction.
- Refinance Transactions
 - Required documentation:
 - FNMA Form 1007 or 1025 reflecting long-term market rents.
 - A vacant or unleased property is allowed without LTV restriction and monthly gross rents are the monthly rents established on the 1007 or 1025 reflecting long-term market rents.

- Monthly Gross Rents are determined by using the actual lease amount or estimated market rent from 1007/1025.
 - If using the actual lease amount the lease amount a copy of the lease 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 rent must be capped at 120% of the lease amount.
- DSCR Calculation:
 - Debt Service Coverage Ratio is the Monthly Gross Rents divided by the PITIA of the subject property. See the Lendz Financial Eligibility Matrix for required Debt Service Coverage Ratios.
 - Gross rents divided by PITIA = DSCR

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

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

- Short Term Rental Income – Purchase and Refinance Transactions
 - DSCR calculation:
 - Monthly gross rents based upon a 12-month average to account for seasonality required.
- Any of the following methods may be used to determine gross monthly rental income:
 - A 1007 or 1025 Comparable Rent Schedule survey prepared by the appraiser reflecting long-term or short-term market rents.
 - The most recent 12-month rental history statement from the 3rd party rental/management service.
 - The most recent 12-month bank statements from the borrower evidencing 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 transaction.
 - The Gross Rents equal the revenue projection from the Rentalizer Report.
 - 100% of the gross rent may be used.
 - Revenue projection equals the average daily rental rate times the occupancy rate.
 - The Forecast Period must cover 12 months from the Note date.
 - Must have five (3) comparable properties, all within the same ZIP code.
 - Must be similar in size, room count, amenities, availability, and occupancy.

- Maximum occupancy limited to 2 individuals per bedroom.
- Overview report (Evaluate a Market):
 - Market score or sub-market score by zip code.
 - Market score or sub-market score must be 60 or greater.
 - When both a market and sub-market score are present, use the lower of the two.
 - Both the market and sub-market score must be at the zip code level.

8.7.4 DEBT SERVICE COVERAGE RATIO CALCULATION

A Debt Service Coverage Ratio (DSCR) ratio is required. $DSCR = \text{Gross Rental Income} / \text{PITIA}$ or $DSCR = \text{Gross Rental Income} / \text{ITIA}$ for Interest Only loans

DSCR loans will be qualified at original Note Rate, regardless of ARM or Fixed

Calculating Real Estate Tax Payment for subject property:

- Refer to Section 12.10 of this guide for the applicable transaction type.
- For new construction purchase and construction-related transactions, the underwriter must use the lessor of a reasonable estimate of the real estate taxes based on the value of the land and the total of all new and existing improvements or the tax estimator from the municipality or title.
 - State of California exception: Use 1.25% of the purchase price to determine the monthly tax payment.

8.7.5 DSCR HOUSING HISTORY

Housing history for the DSCR Doc type is limited to verifying the borrower's primary residence and the subject property if a refinance transaction. VOMs are required on those properties for any mortgages including private mortgages with no additional documentation. If borrower is renting primary, a VOR from landlord is required with no additional documentation.

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

NO HOUSING HISTORY OR LESS THAN 12 MONTHS VERIFIED

Borrowers who own their primary residence free and clear for a minimum of 12 months are acceptable. Properties owned free and clear are considered 0x30 for grading purposes. Experienced investors who provide verification of living rent free are acceptable provided they own other REOs with acceptable mortgage financing history. A "rent-free" letter of explanation from the homeowner is required. Borrowers who do not have a complete 12-month housing history are ineligible for the program.

8.7.6 DSCR RESTRICTIONS

- 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. A copy of the note will be required to verify the payoff/release terms.

8.7.6.1 INELIGIBLE PROPERTY TYPES

Assisted Living	Properties with less than 400 square feet living space
Barndominiums	Properties Under Construction
Boarding houses	Rural properties greater than 20 acres
C5 or C6 property condition grades	Tenancy in Common properties
Commercial properties	Time-shares
Geodesic domes	Unique Properties
Log Homes	Working Farms
Manufactured housing or Manufactured Homes	Vacant lots
Work escrows are not permitted	No Mortgage Loans financing builder inventory is permitted

8.7.7 5-8 RESIDENTIAL AND 2-8 MIXED USE PROPERTY

8.6.7.7.1 PROPERTY INCOME ANALYSIS

- Minimum DSCR ≥ 1.00 .
- DSCR = Eligible monthly rents/PITIA (Loans with an interest only feature may use the ITIA payment).
- Loan amounts $\geq \$2,000,000$ require DSCR ≥ 1.00 and Debt Yield of 9% or greater (Net operating income/Loan amount = 9% or greater).
- Leased – Use lower of Estimated market rent or lease agreement.
- Vacant Unit(s) – Use 75% of market rents. Max: 1 vacancy on 2-3 Unit properties: 2 vacancies on 4+ Units.
- Reduce qualifying rents by any management fee reflected on appraisal report.
- Copies of any existing leases must be provided (Purchase and Refinance transactions).
- Income from commercial space must not exceed 49% of the total property income.
- If the lease has been converted to month-to-month, then provide the most recent two (2) months proof of receipt to evidence continuance of lease.
- Short-term rental use/income not eligible.

- Neither the Borrower(s) nor the borrower's immediate family shall at any time occupy the property.

8.7.7.2 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.

8.7.7.3 ELIGIBLE PROPERTY

- Residential unit(s) not permitted to be occupied by the borrower or the borrower's immediate family.
- Commercial unit(s) may be occupied by the borrower's business.
- Residential 5 – 8 Units (Max 2-acres)
- Mixed use 2 – 8 Units
 - Commercial usage limited to Retail/Office/Restaurant
 - 2-3 Units: Max 1 commercial Unit
 - 4-5 Units: Max 2 commercial Units
 - 6-8 Units: Max 3 commercial Units
 - Commercial space must not exceed 49% of the total building area
- Unleased Units
 - Maximum 1-unit on 2–3-unit property
 - Maximum 2-units on 4+ unit property

8.7.7.4 PROPERTY CONDITION

- No Fair or poor ratings.
- No environmental issues (Storage or use of hazardous material i.e., dry cleaner, 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)

8.7.7.5 PREPAYMENT PENALTY

Eligible prepayment penalties limited to either a fixed percentage or declining percentage style.

8.7.7.6 ELIGIBILITY REQUIREMENTS

The maximum loan term cannot exceed 30 years.

8.7.7.7 ASSETS

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

8.7.8 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.

8.7.8.1 ELIGIBILITY REQUIREMENTS

- Only experienced investors are eligible for cross collateral loans.
- 1-4 residential units are eligible. 5-8 Residential and 2-8 Mixed use property are not eligible.
- Underwriter to complete cross collateral workbook and upload to Lendz portal.
- Mixed transactions (i.e., Purchase, Cash-out) permitted, however, eligibility/pricing is based upon the most conservative transaction type.
- DSCR: A Loan DSCR and Property DSCR is required to be calculated.
- The maximum loan term cannot exceed 30 years.
- Loan DSCR:
 - The minimum loan DSCR is 1.20.
 - Loan DSCR is calculated as follows:
 - Total of gross rental income for all properties/loan PITIA.
- Property DSCR:
 - Minimum DSCR requirements for each property:
 - Amortizing payment – 1.00
 - Interest Only – 1.20
 - Property DSCR is calculated as follows:
 - Rental income per property/Allocated loan amount PITIA

- Rental income documentation/determination.
- Property Count: Minimum – 3; Maximum – 25
- Partial Release: 120% of the allocated balance required to be paid to obtain a partial release.
- Prepayment Penalties: Required subject to State eligibility restrictions.
 - The prepayment penalty is assessed when:
 - The loan prepays in full during the prepay period; or
 - A partial release payment is made during the prepay period. The prepay penalty amount is based upon the release price.
 - Acceptable structures include the following:
 - 5% fixed up to 5-years
 - Declining structures that do not exceed 5% and do not drop below 3% in the first 3 years. For example: (5%/4%/3%/3%/3%) or (5%/4%/3%/2%/1%)
- Cash Out Seasoning – Property value based upon the lower of acquisition cost plus documented improvements or current appraised value for any property acquired within 6-months of the note date.
- Eligible Borrower Types – Vesting permitted as follows:
 - Individual(s): U.S. Citizen or Permanent Resident.
 - Entities: Limited Liability Company, Partnership, or Corporation.
- Closing Documentation – The Lendz Business Purpose documents or similar commercial style closing documents must be utilized.
- Cross Collateral loans cannot be originated or assigned to MERS.

8.7.8.2 APPRAISAL REQUIREMENTS

- **1-4 Units**
 - See Appraisal Requirements for 1-4 Unit Residential in section [1-4 Unit Residential](#) for complete criteria.
 - Review product required: SSR with a score of 2.5 or less, CDA, ARA, or ARR

8.7.8.3 GROSS RENT DOCUMENTATION REQUIREMENTS

- Purchase
 - FNMA Form 1007, if applicable.
 - Existing lease agreement(s), if applicable.
 - If the existing lease is being transferred to the borrower, the underwriter must verify that it does not contain any provisions that could affect the first lien position of the subject property.

- Refinance
 - FNMA Form 1007, if applicable.
 - Existing lease agreement(s), if applicable.
 - If subject property leased on a short-term basis is utilizing an on-line service such as Airbnb; gross monthly rents can be determined by using a 12-month look back period; and either 12-monthly statements, or an annual statement provided by the on-line service to document receipt of rental income. In addition, a screen shot of the online listing must show the property is actively marketed as a short-term rental. A 5% LTV reduction is required when using short-term rental income to qualify.

8.7.8.4 DEBT SERVICE COVERAGE RATIO – CALCULATION REQUIREMENTS

- Leased property: DSCR is based upon the contracted monthly rent amount from the lease:
 - A property is considered “Leased” when there is an executed long term (Min. 12 months) lease agreement between the lessor and lessee.
- Unleased and vacant property: DSCR is based upon the estimate of the monthly rent of the subject. The final reconciliation of Market Rent must be based on a 12-month rent schedule.
 - A property is considered unleased and vacant when no long term executed lease is in place. The Borrower should provide the cause of vacancy (Letter of Explanation) for refinance transactions, such as recently completed renovation, tenant turnover, etc.
- Vacancies
 - 1-4 Units – Vacant unit qualify at 75% of market rent (Maximum 1 vacancy).

8.7.8.5 ELIGIBLE TENANT

- Neither the Borrower(s) nor the borrower’s immediate family shall at any time occupy the properties.
- Borrower affiliated tenants are defined as any borrower or guarantor, any affiliate of the borrower/guarantor, any holder of a direct or indirect interest in Borrower or such affiliate, any officer, director, executive employee, or manager of the borrowing entity, and any family member (including spouse, siblings, ancestors, and lineal descendants) of any person or entity described in the preceding.
- Borrower(s) must attest that all tenants are non-borrower affiliated.

8.7.8.6 LEASE AND OCCUPANCY REQUIREMENTS

- All units must be residential units that are currently occupied and leased to tenants, except that up to 10% of the units for a loan may be comprised of units which are currently vacant, but in lease-ready condition. Notwithstanding the foregoing, for portfolios of less than 10 units, up to one (1) unit may be vacant in the normal course of lease turnover.

- All properties must be either leased to an eligible tenant or in lease ready condition meaning the properties have been cleaned, no renovations or repairs to the properties are needed and the properties are immediately available to be leased to an eligible tenant.
- Corporate lease agreements are acceptable with lease terms consistent with typical market standards and will be subject to standard market rent verification.
- Lease Agreements that allow Single Room Occupancy (SRO), or boarder leases are not permitted.
- Third-party sale-and-leaseback agreements and contracts for deed transactions will not be permitted.
- Leases must be in U.S. dollars.

8.7.8.7 ASSETS

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

9.0 ASSETS

The following applies to all transactions unless otherwise stated.

9.1 ASSET DOCUMENTATION

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
 - Borrower reflected 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 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 payment 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.

Large deposits on any of the above asset documentation must be sourced. Large deposits are defined as any single deposit that represents more than 100% of the borrower's qualifying monthly income. Large deposits do not need to be sourced on DSCR loans.

- Stocks/bonds/mutual funds - 100% of the account(s) value may be considered for assets.
- Vested retirement account (e.g., IRA, 401k, Keogh, 403b) - 70% of the vested balance may be considered for assets. 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.
 - Full access letter required from all other business owner(s) if borrower is not 100% owner of 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
- 529 Savings Plan

- Down payment assistance programs
- Funds contributed by a non-borrowing spouse unless documented as a gift. See Section Gift Funds.
- Unsecured loans or cash advances

9.2 ASSET REQUIREMENTS

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 statements covering a one (1) month period and dated within 120 days of the loan note date.

9.3 RESERVES

Lendz Financial loan program requires minimum reserves as outlined on the Lendz Financial Loan\LTV matrices.

Net proceeds from a cash-out transaction may be used to meet reserve requirements.

Reserve requirements are waived for Rate-And-Term Refinance transactions when:

- The transaction results in a reduction to the monthly principal and interest payment of 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.

Proceeds from a 1031 Exchange cannot be used to meet reserve requirements.

Gift funds may be used to meet reserve requirements.

9.4 GIFT FUNDS

9.4.1 ELIGIBLE GIFT FUND DONORS

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.

For any gift provided by a non-US citizen, the donor must be screened against the OFAC Specially Designated Nationals (SDN) list.

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.

9.4.2 GIFT 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.

VERIFYING DONOR AVAILABILITY OF FUNDS AND TRANSFER OF GIFT FUNDS

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

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

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

- Gift funds may not be used to meet reserve requirements.
- Gift of Equity allowed for Primary Residence or Second Homes. Must meet all other guidelines for Gift Funds.

10.0 COLLATERAL

10.1 APPRAISAL REQUIREMENTS FOR 1-4 UNIT RESIDENTIAL

Lendz Financial 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. Lendz Financial 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

Underwriters must order appraisals using one of two processes. The appraisal must either be ordered through an Appraisal Management Company (AMC) that complies with Appraiser Independence Requirements (AIR), or via the correspondent's own AIR-compliant process.

10.1.1 APPRAISER LICENSE AND CERTIFICATION

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

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

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

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

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

10.1.2 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 the 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 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.

Not eligible for Lendz Financial purchase: 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. Lendz Financial will consider purchase if the issue has been corrected prior to loan funding and with proper documentation.

10.1.3 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.

10.1.4 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.

10.1.5 EXISTING CONSTRUCTION

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

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

10.1.6 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.

10.1.7 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.

10.1.8 ACCESSORY DWELLING UNITS (ADU)

Lendz Financial will fund a one-unit property with an accessory unit. An accessory unit is typically an additional living area independent of the primary dwelling unit and includes a fully functioning kitchen and bathroom. Some examples may include a living area over a garage and basement units. Whether a property is defined as a one-unit property with an accessory unit or a two-unit property will be based on the characteristics of the property, which

may include, but are not limited to, the existence of separate utilities, a unique postal address, and whether the unit is rented. The appraiser is required to provide a description of the accessory unit and analyze any effect it has on the value or marketability of the subject property.

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

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

10.1.9 OUTBUILDINGS

An 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.

10.1.10 APPRAISAL TRANSFER

An As-Is transferred appraisal report is acceptable provided the report meets the Lendz Financial appraisal requirements for independence. If the appraisal is subject-to, it may be considered on an exception case-by-case basis as determined by the Lendz Exception Committee.

- Only one appraisal transfer is permitted per loan.
- A Collateral Desktop Analysis (CDA) is required for all transferred appraisals.

10.2 MINIMUM REQUIREMENTS

MINIMUM SQUARE FOOTAGE		
Single Family 500 sq. ft.	Condominium 400sq. 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.
 - Condotels with a kitchenette are acceptable
- Represent the highest and best use of the property.
- May not contain any health or safety issues.

10.3 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.

For condotels, personal property may be transferred with the sale provided the appraiser indicates this is common for the area.

10.4 ESCROW HOLDBACKS

Escrow holdbacks are not allowed. Any repair or maintenance required by the appraiser must be completed prior to loan purchase. Lendz Financial will not acquire any loan with an escrow holdback.

10.5 DECLINING MARKETS

The loan transaction is subject to a 5% LTV reduction if the property is in a declining market. Declining markets are determined by a) property location in a State/CBSA identified by Lendz, or b) the appraisal report reflects a declining market under housing trends.

10.6 DISASTER AREAS

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.

See the appraisal section for disaster related appraisal requirements.

The guidelines for disaster areas should be followed for 30 days from the disaster declaration date as published by FEMA

10.6.1 APPRAISAL COMPLETED PRIOR TO A FEMA DESIGNATED DISASTER

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

- The appraiser should provide a statement indicating if the subject property is free from any damage, is in the same condition 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.
- Any damage must be repaired and re-inspected prior to funding.

10.6.2 APPRAISAL COMPLETED AFTER A FEMA DESIGNATED DISASTER

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 to funding.

10.7 APPRAISAL REVIEW REQUIREMENTS

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 underwriter may submit 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.
- 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. Lendz will use the lower of the original appraisal or the field review/second appraisal to determine the value. These may not be from the same appraiser or appraisal company as the original report.

10.8 ELIGIBLE PROPERTY TYPES

- Single Family Detached
- Single Family Attached
- 2-4 Unit residential properties
- Condominium
- Condo hotels
- Modular homes
- Properties of 10 acres or less
- Leaseholds (in areas where leaseholds are common)
- Rural properties

10.9 INELIGIBLE PROPERTY TYPES

- 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
- Cooperative / Cooperative share loans
- Properties used as boarding houses, bed/breakfast, or single room occupancy
- 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

INELIGIBLE PROJECTS:

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

10.10 ACREAGE LIMITS

A maximum of 20 acres - No truncating allowed.

11.0 CONDOMINIUMS

A condominium project is one in which individual owners hold title to units in the project along with an undivided interest in the real estate that is designated as the common area for the project. The units in the project must be

owned in fee simple and the unit owners must have the sole ownership interest in and rights to the use of, the project's facilities, common elements, and limited common elements.

11.1 WARRANTABLE CONDOMINIUM

- A condominium is considered warrantable if it meets Fannie Mae's requirements, with the following exceptions:
 - 10% deductible master insurance is acceptable.
 - 90% co-insurance is acceptable

11.2 NON-WARRANTABLE CONDOMINIUM:

- If the project does not meet the criteria for a warrantable condominium, it will be considered non-warrantable.
- Allowed using the Lendz Financial limited review form (See exhibit A)
- Transactions must meet the LTV restrictions in the appropriate Lendz Financial Matrix.
- 10% deductible master insurance is acceptable.
- 90% co-insurance is acceptable

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

11.3 LENDZ FINANCIAL EXPOSURE FOR CONDOMINIUMS

Lendz Financial condo project exposure maximum may be \$10,000,000 or 20% of project whichever is lower.

11.4 NEW PROJECT REQUIREMENTS

New Project Requirements:

- 25% of the total units in the project or subject's phase must be sold and conveyed to the unit owners
- Project or subject's legal phase must be complete. All common elements in the project & legal phase must be 100% complete.
- Project may be subject to additional phasing.
- The project developer may be in control of the condominium association provided the Master Agreement allows the homeowners to take control of either a predetermined percentage of unit sales or within a defined time frame up to two years. Anything after two years will be considered on a case-by-case basis.

11.5 CONDOMINIUM HOTEL – AKA CONDOTEL

- Projects where the units are individually owned, and the project offers hotel amenities.
 - Hotel amenities may include on-site registration, housekeeping services, and other hospitality services

- A project that offers rentals of units on a daily, weekly, or monthly basis.
- Occupancy Type: Primary, Second Home, or Investment.
- Investor concentration, within the subject project, may exceed established project criteria, up to 100%.
- Minimum square footage: 400
- Kitchenette is acceptable
- Studio is acceptable

11.6 INELIGIBLE PROJECTS

- Timeshares or projects that restrict the owner's ability to occupy the unit.
- Projects that include combination live and work units.
- Manufactured home projects.
- Assisted living facilities, continued care facilities and life care facilities.
- Multi-family units where single deed has ownership of more than one or all of the units.
- Condo conversions less than 2 years.
- Where more than 50% of the total square footage in the project is used for non-residential purposes.
- Common interest apartments.
 - 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.
- Projects in litigation or other disputes involving safety, soundness or habitability.
- Projects with adverse environmental issues involving safety, soundness or habitability.
- A project subject to the rules and regulations of the US Securities and Exchange Commission.
- Houseboat project.
- Any project in need of critical repairs with one of the following characteristics:
 - mold, water intrusions or potentially damaging leaks to the project's building(s); or
 - unfunded repairs costing more than \$10,000 per unit undertaken within the next 12 months (does not include repairs made by the unit owner or repairs funded through special assessment).
- 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.

12.0 TITLE REQUIREMENTS

12.1 TITLE POLICY REQUIREMENTS

Each loan funded by Lendz Financial 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. The underwriter must represent and warrant 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.

12.2 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.

12.3 EFFECTIVE DATE OF COVERAGE

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

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

12.4 AMOUNT OF COVERAGE REQUIRED

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

12.5 OTHER TITLE 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 Lendz Financial. 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.
- Preliminary title report must include plat map and survey (as required), and final loan amount.

12.6 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.

12.7 CONDOMINIUM OR PLANNED UNIT DEVELOPMENT TITLE REQUIREMENTS

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 Lendz Financial 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.

12.8 TITLE EXCEPTIONS

Lendz Financial will not purchase or securitize 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 underwriters 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.

12.9 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 Lendz Financial 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.

12.10 TAXES TO BE USED FOR THE TRANSACTION

The following methodology will be used to determine the annual taxes for the subject property:

12.10.1 REFINANCE

Subject Property Occupancy	Document to be used for annual taxes
Owner Occupied	Current tax bill
Second Home	Current tax bill
Investment	Current tax bill

12.10.2 PURCHASE TRANSACTION

Current occupancy to the same occupancy:

- Currently Owner-Occupied to Owner-Occupied = Use current tax bill.

- Currently an investment/2nd home to Investment/second home = Use current tax bill.

Current occupancy to a different occupancy:

- Owner Occupied to Second Home or Investment = Use tax estimator or estimate from title.
- Second home to Owner Occupied = Use current tax bill or estimate from title.
- Second home to Investment = Use current tax bill or estimate from title.
- Investment to Owner-Occupied = We can use either the current tax bill (which will be higher than what it is likely due to the exemptions) or we can use a tax estimate from title.

12.10.3 NEW CONSTRUCTION

- For purchase and construction-related transactions, the underwriter must use the lessor of a reasonable estimate of the real estate taxes based on the value of the land and the total of all new and existing improvements or the tax estimator from the municipality or title.
- If the property has a CDD this will be included on top of the tax estimate.
- In California, use 1.25% of the purchase price.

13.0 INSURANCE

13.1 PROPERTY INSURANCE COVERAGE

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 lender must verify that the property insurance coverage amount for a first mortgage secured by a one- to four-unit property is at least equal to the lesser of:

- 100% of the replacement cost value of the improvements as of the current property insurance policy effective date, or
- the unpaid principal balance of the loan, provided it equals no less than 80% of the replacement cost value of the improvements as of the current property insurance policy effective date.

The source that the lender or servicer 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.

13.1.1 DETERMINING THE REQUIRED COVERAGE AMOUNT

The following table provides the steps to calculate the amount of required property insurance coverage.

Step	Description
1	Compare the replacement cost value of the improvements to the unpaid principal balance (UPB) of the loan.
1A	If the replacement cost value of the improvements is less than the UPB, the replacement cost value is the amount of coverage required.
1B	If the UPB of the loan is less than the replacement cost value of the improvements, go to Step 2.
2	Calculate 80% of the replacement cost value of the improvements.
2A	If the result of this calculation is equal to or less than the UPB of the loan, the UPB is the amount of coverage required.
2B	If the result of this calculation is greater than the UPB of the loan, this calculated figure is the amount of coverage required.

Note: When calculating the required amount of property insurance coverage, the loan amount must be used at origination and the UPB must be used during servicing of the loan.

Examples:

See the example in the table below:

Category	Property A	Property B	Property C
Replacement Cost Value	\$90,000	\$100,000	\$100,000
UPB	\$95,000	\$90,000	\$75,000
80% of the Replacement Cost Value	—	\$80,000	\$80,000
Required Coverage	\$90,000	\$90,000	\$80,000
Calculation Method	Step 1A	Step 2A	Step 2B

13.1.2 DEDUCTIBLE REQUIREMENTS

The maximum allowable deductible for all required property insurance perils for one-to four-unit properties is 5% of the property insurance coverage amount.

When a property insurance policy includes multiple deductibles, such as a separate deductible that applies to windstorms, or a separate deductible that applies to a specific property element such as the roof, the total amount for such deductibles applicable to a single occurrence must be no greater than 5% of the property insurance coverage amount.

13.2 FLOOD INSURANCE REQUIREMENTS

The underwriter must ensure that the property securing the mortgage loan is adequately protected by flood insurance when required. 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 underwriter 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.

13.2.1 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.

13.3 CONDOMINIUM INSURANCE REQUIREMENTS

13.3.1 COVERAGE

Borrower must carry H06 coverage for replacement of such items as flooring, wall covering, cabinets, fixtures, built-ins, and any improvements made to the unit.

Project meets all Fannie Mae insurance requirements for property, liability, and fidelity coverage.

90% co-insurance is allowed.

13.3.2 FIDELITY OF EMPLOYEE DISHONESTY INSURANCE FOR CONDOMINIUMS

For condominium projects consisting of more than 20 units, fidelity insurance coverage equaling at least a sum of three months of assessments on all units in the project is required. Fidelity coverage is not required for Limited Review/Non-Warrantable condominiums.

13.3.3 HO-6

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

13.3.4 DEDUCTIBLE

The maximum deductible amount must be no greater than 10% of the face amount of the policy.

13.3.5 FLOOD INSURANCE

The condominium homeowners’ owners must obtain an NFIP Residential Condominium Building Association Policy (RCBAP) with the following coverage:

- Building Coverage must equal the lesser of:
 - 100% of the insurable value (replacement cost) of the building, including amounts to repair or replace the foundation and its supporting structure); or
 - The total number of units in the condominium building times \$250,000
- Contents Coverage must equal the lesser of:
 - 100% of the insurable value of all contents (including machinery and equipment that are not part of the building) that are owned in common by the association members; or
 - The maximum amount of contents coverage sold by the NFIP for a condominium building; or
 - If the common areas are less than 25%, coverage provided by the General Property Form (or equivalent coverage) is sufficient.

EXHIBIT A – CONDO QUESTIONNAIRE (LIMITED REVIEW)

Date:	Loan No:	Borrower(s) Name:
Project Name:		Phase Number:
Project Address:		Country:
City:	State:	Zip:
Subject Property Address/Unit #:		

A mortgage loan is being processed on the subject property listed above.

The following information is required to complete the process. Your timely response is appreciated.

Use this form when the following three conditions apply:

1. All units, common elements/amenities including Master Association, phases, annexation/add-ons are 100% complete.
2. 90% sold and closed.
3. HOA control has been turned over to the unit owners.

Number of total units in project: _____

Unit is ___ Attached ___ Detached

Yes No N/A

1				If the subject unit is a detached unit, is the unit 100% complete?
2				Is the project a timeshare or condo hotel, or is it managed or operated as a hotel, motel, or vacation resort even though the units are individually owned?
3				Are unit owners required to pay mandatory upfront and/or periodic membership fees for use of recreational amenities not owned by the HOA (i.e. owned by an outside party including the developer/builder?
4				Are units in the project subject to private transfer fees other than those paid directly to the HOA or property manager? (Defined as transfer fee to be paid to an identified third party – such as the developer or its trustee – upon each resale of the property.)

5				If a unit is taken over in a foreclosure or a deed-in-lieu of foreclosure, is the lender liable for more than 6 months of delinquent HOA fees?
6				Is more than 25% of the total square footage of the project used for nonresidential purposes (commercial space)?
7				Does the project consist of live-work units? Is it a live work project? If yes, is it mostly residential in character and are the unit owners operators of the business? ___ Yes ___ No
8				Are multi-dwelling units allowed (owner owns more than 1-unit secured by a single deed and single mortgage)
9				Is the project subject to zoning restrictions that would prohibit the project from being re-built to current density?
10				Does a single entity (individual, investor group, partnership, corporation, or government housing authority) own more than the following number of units in the project? (see below) If yes, check the appropriate project size and state how many they own: - Projects with 2-4 units: >1 units # owned? _____ - Projects with 5-20 units: >2 units # owned? _____ - Projects with 20+ units: >10% units # owned? _____
11				Is the Homeowners' Association currently involved in a litigation other than as the Plaintiff in a lawsuit against unit owners to collect unpaid common expense assessments, or as a "Necessary Defendant" in a mortgage foreclosures action against unit owners?

CONTACT AND SIGNATURE (TO BE COMEPLTED BY HOA, MANAGING AGENT OR DEVELOPER)

Date: _____

Contact Name/Title: _____

HOA/Company Name: _____ HOA Tax ID: _____

Phone Number: _____ Fax Number: _____

By signing below, I certify that, to the best of my knowledge, the information provided is true and correct. The undersigned further represents they are authorized by the Homeowners' Association Board of Directors and/or the Managing Agent to provide this information on behalf of the Association.

Signature