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1. NON-QM UNDERWRITING GUIDELINES

1.2 GENERAL INFORMATION

The Lendz Financial Series 1 Eligibility Guidelines are to be used in conjunction with the most recent Lendz Financial Non-QM Eligibility Guidelines.

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).

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

1.2.1 ABILITY TO REPAY (ATR)

Interest Only – DTI loans: Qualifying payment is calculated using the remaining term after the expiration of the interest only period

2.0 BORROWER ELIGIBLITY

2.1 NON-PERMANENT RESIDENT ALIENS

2.1.2 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 the 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
- Valid VISA or EAD is required. Usage of State Department's Visa Waiver Program to determine eligibility is not sufficient.

3.0 TRANSACTION SPECIFIC

3.1 NON-ARMS' LENGTH TRANSACTION

- Family sales require 12-month mortgage history from the seller verifying the transaction is not a bailout.
- Maximum LTV allowed for non-arm's length transactions is 80%

3.2 CASH-OUT REFINANCE TRANSACTION

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

- Less than 6 months' seasoning is allowed but there must be documented improvements. Value will be based on the lesser of appraised value or purchase price/documented improvements.
- Using lesser of two appraisals to determine LTV is ineligible

3.3 LEASE OPTION TO PURCHASE

- If the lease is executed within 12 months of the Note date, use the lower of the purchase price or appraised value for LTV.
- If the lease is executed 12 months or greater from the Note date, use the appraised value for LTV.

3.4 INTERESTED PARTY CONTRIBUTIONS

Occupancy	LTV	Max Percentage
Primary OR 2nd Home	≤75%	9%
Primary OR 2nd Home	75.01≤	6%
Investment	All	6%

4.0 CREDIT ELIGIBILITY

4.1 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.
- First-time investor must own a primary residence unless it is documented that spouse owns primary residence.

4.1.2 MORTGAGE VERIFICATION

MORTGAGE(S) NOT REPORTING ON CREDIT REPORT

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

- 6 months proof of borrower payment required when VOM is completed by a private party.

4.1.3 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:

- 6 months proof of borrower payment required when a VOR is completed by a private party.

4.2 BALLOON NOTE WITH MATURITY DEFAULT

For Notes with a balloon feature the payment history will be treated as follows: 1x30x12 housing history delinquency not sufficient when the expired maturity date exceeds 60 days. 61-day delinquency is 1x60 late, 91-day delinquency is 1x90 late, etc.

4.3 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:

- Ineligible for Foreign National, DSCR Multi, DSCR Cross Collateral, Closed End Second.

5.0 INCOME AND EMPLOYMENT

5.1 ALTERNATIVE DOCUMENTATION INCOME

5.1.2 BANK STATEMENT PROGRAM

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

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

- CPA, EA, 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.
- PTIN is not eligible

5.1.3 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 of self-employment history.

Preparer must complete or file the most recent business tax return, option to review tax returns not allowed.

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, 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
- PTIN is not eligible for Series 1 P/L program

5.1.4 1099 ONLY INCOME

See the Lendz Financial Matrices for maximum LTV and DTI.

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. Income calculation to be determined using 1099 form(s).

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 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 not be averaged with validated 1099(s)
- 1099 transcripts are required. Alternate evidence required if "No Return Found".

5.2 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 and two (2) months of receipt of the rent is required for leased properties.

6.0 DEBT SERVICE COVERAGE (INVESTMENT PROPERTY)

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

- DSCR calculation:
  - 1007 or 1025 comparable rental schedule
  - Monthly gross rents based upon a 12-month average to account for seasonality required.
  - AIRDNA: a 20% expense factor is required

Short-term rents can be documents with one of the following options depending upon the transaction:

- 1007 or 1025
  - Source of the data used to complete the STR analysis.
  - Comparable STR properties, focusing on room count, gross living area (GLA), location, and market appeal.
  - Daily rental rate and occupancy percentage.
  - Seasonality and vacancy to be factored into the analysis.
  - Must be completed by a licensed appraiser.
- Alternative Short-term Rent Analysis form developed by an AMC.
- 12-month look back on rents received using bank statements or 3rd party rental statements.
- AirDNA Property Earning Potential Report

6.2 5-8 RESIDENTIAL AND 2-8 MIXED USE PROPERTY

Housing payment history tolerance is 0x30x12

7.0 ASSETS

7.1 RESERVES

Gift funds may be used to meet reserve requirements for DTI loans and DSCR 1-4 units only.

7.2 GIFT FUNDS

- Gift funds are not allowed for 5-8 Residential and 2-8 Mixed Use properties.

8.0 CONDOMINIUMS

- Limited review is ineligible for Series 1

8.1 WARRANTABLE CONDOMINIUM

Warrantable Condominium: Follow Fannie Mae Requirements

8.2 NON-WARRANTABLE CONDOMINIUM:

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

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

- All Loans secured by condominium projects require a completed Condominium Project Questionnaire except for:
  - Site Condominium
  - 2-4 Unit project
- For the above projects that do not require a completed Condominium Project Questionnaire, the following requirements must be met:
  - Project is not ineligible, see Section 2.10.6.5 Ineligible Projects.
  - Evidence of sufficient hazard, flood, and walls-in insurance coverage if the subject unit has individual coverage. If the insurance covers the entire project, it must be sufficient in the event of a total loss.
  - Homeowner's association (HOA) dues to be included in DTI/DSCR if applicable.
- Projects consisting entirely of detached (site) units will not require a project review and are eligible for single-family dwelling LTV/CLTV. Completion of the Condominium Project Questionnaire is not required for site condominiums.
- Projects have been created and exist in full compliance with applicable local jurisdiction, State, and all other applicable laws and regulations.
  - Projects are ineligible if there are outstanding violations of jurisdictional requirements (zoning ordinances, codes, laws, etc.) related to the safety, soundness, structural integrity, or habitability of the project's building(s).
- Projects in need of critical repairs are ineligible, see Section 2.10.6.1 Project Condition - Critical Repairs.
- Special assessment information is to be provided to determine if there is a critical repair or significant deferred maintenance, see Section 2.10.6.1.1 Special Assessments.
- Project exposure maximum shall be $5,000,000 or 20% of the total units in a project greater than 4 units, whichever is lower.
- Subject Unit Minimum Requirements: Minimum 500 square feet, full size kitchen, minimum of one (1) bedroom.
- Commercial space allowed up to 50% of the project.
- No more than 20% of the total units in the project may be 60 days or more past due on the condominium/HOA fees.
- For condominium projects consisting of five or more units, single entity ownership is limited to 20% of the project.
- Investor concentration allowed up to 60%. A higher percentage may be considered when the subject transaction is an investment property when a history of a high percentage of rental units in the project can be demonstrated.

- Projects involved in litigation are acceptable provided the lawsuit(s) are not structural in nature which impact the subject unit and do not affect the marketability of the project units and potential damages do not exceed 25% of HOA reserves or documentation from the insurance carrier or attorney representing the insurance carrier that the insurance carrier has agreed to conduct defense and the HOA insurance policy is sufficient to cover the litigation expense.
- Borrower must carry HO-6 coverage for replacement of such items as flooring, wall covering, cabinets, fixtures, built-ins, and any improvements made to the unit.
- Underwriter must confirm that the project documents do not give a unit owner or any other party priority over the rights of the first mortgagee.

PROJECT CONDITION – CRITICAL REPAIRS

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

Critical repairs include conditions such as:

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

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

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

SPECIAL ASSESSMENTS

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

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

- Determine the purpose of the special assessment.
- Determine when the special assessment was approved, when it is planned (approved by the unit owners, but not yet initiated by the board), or already being executed.
- Review the original amount of the special assessment and the remaining amount to be collected.

- Evaluate the expected date the special assessment will be paid in full. If the special assessment is associated with a critical repair and the issue is not remediated, the project is ineligible.

INSPECTION REPORTS

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

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

ESTABLISHED PROJECTS

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

NEW OR NEWLY CONVERTED PROJECTS

- 50% of the total units in the project or subject's phase must be sold and conveyed to the unit owners AND at least 50% of the units must be owner occupied.
- Project or subject's legal phase along with other development phases must be complete. All common elements in the project or legal phase must be 100% complete.
- Project may be subject to additional phasing.
- 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.

8.3 CONDOMINIUM HOTEL – AKA CONDOTEL

A condotel is a condominium project that markets and/or manages daily, weekly, monthly, or seasonal rentals, also known as short-term rental units. Characteristics may include, but are not limited to, the following:

- HOA or the HOA's Property Management Company markets and/or manages the short-term rental units
- On-site or off-site leasing office markets and/or manages the short-term rental units on behalf of the HOA or the HOA's Property Management Company
- On-site, off-site, or centralized reservation and/or registration is managed by the HOA or the HOA's Property Management Company
- Hotel/motel amenities, services, and/or fees offered by the HOA or the HOA's Property Management Company
- Unit is accessed through a central key system
- Interior doors adjoin separate units
- Exit, emergency, or evacuation plans are posted inside the unit
- Unit owner who offers and/or manages the subject property as a short-term rental should not be used as the sole factor to determine the subject property is a condotel.
- When community amenities are present (e.g., bellman, valet, restaurants), due diligence must be exercised in determining if the amenities are privately owned or if they are offered as hotel/motel service. If privately owned, presence of these community amenities does not automatically make the project a condotel.
- When commercial offerings are present (e.g., retail stores, office space), due diligence must be exercised in determining if the amenities are privately owned or if they are offered as hotel/motel service. If privately owned, presence of these community amenities does not automatically make the project a condotel.
- Occupancy Type: Primary, Second Home, or Investment
- Maximum LTV/CLTV: See program Loan/LTV matrix
- Maximum Loan Amount: See program Loan/LTV matrix
- Investor concentration, within the subject project, may exceed established project criteria, up to 100%.
- Gross rents (for all income doc types) reduced by 10% to reflect extraordinary costs (i.e., advertising, furnishings, cleaning) associated with operating short-term rental property compared to non-short-term property.
- Minimum square feet: 500
- Fully functioning kitchen – appliances to include a refrigerator and cooktop/stove/oven
- Separate bedroom required

8.4 INELIGIBLE PROJECTS

- A project subject to the rules and regulations of the US Securities and Exchange Commission.
- Timeshare or projects that restrict the owner's ability to occupy the unit.
- Houseboat project.
- Manufactured home projects.

- Assisted living facilities or any project where the unit owner's contract includes a lifetime commitment from the facility to care for the unit owner regardless of future health or housing needs.
- Multi-family units where a single deed (cross collateral or blanket mortgage) 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 homeowner's association (HOA).
- Fragmented or segmented ownership
    - Ownership is limited to a specific period on a recurring basis (i.e., timeshare, quarter share).
- Any project where the developer (or its affiliates) owns the Common and/or Limited Elements and leases the elements back to the HOA.
- Any project that has non-conforming zoning (can't be rebuilt to current density).
- Any project that requires Private Transfer Fees as a part of the transaction, and those fees do not benefit the association.
- Any project in need of critical repairs.
- Any project with significant deferred maintenance or has received a directive from a regulatory or inspection agency to mark repairs due to unsafe conditions.
- Any project with outstanding violations of jurisdictional requirements (zoning ordinances, codes, laws, etc.) related to the safety, soundness, structural integrity, or habitability of the project's building(s).

9.0 INSURANCE

9.1 CONDOMINIUM INSURANCE REQUIREMENTS

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

MASTER PROPERTY INSURANCE

Master property insurance policies are required for the common elements and residential structures unless the condo project requires individual property insurance policies for each unit. In that case, the individual property insurance policy must meet the requirements in Section 1.8.2.7.1 Hazard Insurance Requirements.

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

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

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

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

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

- Borrower name, unit number, and mortgagee clause are not required to be included in master insurance policy.
- The maximum deductible is 10%.
- For condominium projects consisting of more than 20 units, fidelity insurance coverage equaling at least the sum of three months of assessments on all units in the project is required.

GENERAL LIABILITY INSURANCE

General liability insurance is required for all condo projects, except for detached condo units and 2-4 unit condo projects. When required, the HOA must maintain a general liability insurance policy for the entire project. The general liability insurance policy must include coverage for:

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

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

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

HO-6

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

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

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

The maximum deductible amount is based on the following:

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

9.1.1 MASTER FLOOD INSURANCE

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

- The only building that must be verified is the subject unit's building.
- Evidence of master flood insurance policy is not required if the unit owner maintains an individual flood dwelling policy that meets the coverage requirements in Section 1.8.2.9 Flood Insurance.
- Master flood insurance policy must cover the following: o Subject unit's entire building, and o All of the common elements and property, including machinery and equipment that are part of the building
- Building Coverage must be at least equal to the lesser of:
    - 80% of the replacement cost value, or
    - Maximum coverage amount available per NFIP per unit (i.e., Total number of units in the condominium building times $250,000)
- Contents Coverage must be at least equal to the lesser of:
    - 100% of the replacement cost value of all contents owned in common by the association members, or
    - Maximum coverage amount available from NFIP
- Deductible may not exceed the maximum deductible amount currently offered by NFIP

9.2 PROPERTY INSURANCE COVERAGE

DSCR 5-8/2-8 Mixed Use
Commercial General Liability insurance required per occurrence $1.0MM, aggregate coverage $2.0MM