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NON-QM LOAN ELIGIBILITY GUIDELINES

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1 INTRODUCTION.....	7
1.1 LENDING PHILOSOPHY.....	7
1.2 FAIR LENDING STATEMENT	7
1.3 RESPONSIBLE LENDING STATEMENT	7
1.4 REGULATORY COMPLIANCE.....	8
2 GENERAL PROGRAM INFORMATION	9
2.1 PROGRAMS	9
2.2 PRODUCTS	9
2.3 LOAN AMOUNTS AND LOAN-TO-VALUES	9
2.4 DOCUMENTATION	10
2.5 LOAN AGE	10
2.6 PREPAYMENT PENALTIES, POINTS, AND FEES	10
2.6.1 FINANCING POINTS.....	10
2.7 EXCEPTIONS.....	11
2.8 ALTERNATIVE LOAN PROGRAM ANALYSIS.....	11
2.9 ESCROWS – IMPOUND ACCOUNTS.....	11
3 OCCUPANCY TYPE	11
3.1 PRIMARY RESIDENCE	11
3.2 SECOND HOME	11
3.3 INVESTMENT PROPERTY	12
4 TRANSACTION TYPE	12
4.1 PURCHASE.....	12
4.1.1 DOCUMENTATION REQUIRED	12
4.1.2 LOAN TO VALUE.....	12
4.2 REFINANCE.....	12
4.2.1 REFINANCE TYPES	12
4.2.2 RATE/TERM REFINANCE.....	13
4.2.3 CASH-OUT REFINANCE	13
CASH-OUT SEASONING AND DETERMINATION OF VALUE	14
4.2.4 PROPERTIES LISTED FOR SALE	14
4.2.5 BENEFIT TO BORROWER	14
4.2.6 TEXAS SECTION 50(a)(6) TRANSACTIONS	15
TEXAS SECTION 50(A)(6) RESTRICTIONS.....	16
TEXAS SECTION 50(a)(6) OCCUPANCY	17
TEXAS SECTION 50(a)(6) REFINANCING AN EXISTING HOME EQUITY LOAN	18



The power of yes.

TEXAS SECTION 50(a)(6) 12-DAY COOLING OFF PERIOD	19
5 TRANSACTION SPECIFIC	24
5.1 FLIP TRANSACTIONS	24
5.2 NON-ARM'S LENGTH TRANSACTIONS	24
5.3 INHERITED PROPERTIES	25
5.4 LAND CONTRACT/CONTRACT FOR DEED	25
5.5 LEASE WITH PURCHASE OPTION	26
5.6 PERMANENT FINANCING FOR NEW CONSTRUCTION.....	26
5.7 STATE SPECIFIC	26
NEW YORK	26
5.8 1031 EXCHANGE	27
5.9 DELAYED FINANCING	27
6 UNDERWRITING	28
6.1 MANUAL UNDERWRITING	28
6.2 AGE OF DOCUMENTATION	28
6.3 CUSTOMER IDENTIFICATION PROGRAM (CIP).....	28
6.4 FRAUD REPORT & LOAN INTEGRITY	28
6.5 CREDIT STANDARDS.....	29
6.5.1 CREDIT SCORES	29
6.5.2 TRADELINE REQUIREMENTS	29
6.5.3 STANDARD TRADELINES.....	30
6.5.5 INSUFFICIENT TRADELINES/ALTERNATIVE CREDIT.....	30
6.5.6 CREDIT EVALUATION	30
6.5.7 MORTGAGE PAYMENT HISTORY	31
ANALYZING DELINQUENT MORTGAGE PAYMENTS HISTORY	31
HOUSING PAYMENT HISTORY FOR ADDITIONAL PROPERTIES OWNED BY BORROWER:.....	32
HOUSING PAYMENT HISTORY PROPERTIES OWNED BY BUSINESS:	32
6.5.8 PAYMENT HISTORY ON ANY OTHER PROPERTY.....	33
6.5.9 CREDIT EVENTS – BANKRUPTCY / FORECLOSURE / SHORT-SALE / DEED-IN-LIEU / MODIFIED LOAN	33
6.5.10 COLLECTIONS AND CHARGE-OFFS.....	33
6.5.11 INQUIRIES	34
6.5.12 LAWSUIT OR PENDING LITIGATION	34
6.5.13 GAP CREDIT REPORT	34
6.5.14 JUDGMENTS AND TAX LIENS	34
6.5.15 FEDERAL INCOME TAX INSTALLMENT AGREEMENTS.....	34



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6.5.16 BANK STATEMENTS ANALYSIS TOOLS	35
6.6 INCOME AND EMPLOYMENT	35
6.6.1 FULL INCOME DOCUMENTATION (24-months)	36
6.6.2 FULL INCOME DOCUMENTATION (12-months)	37
6.6.3 OTHER SOURCES OF INCOME	38
6.6.4 WRITTEN VERIFICATION OF EMPLOYMENT (WVOE)	38
6.6.6 FEDERAL INCOME TAX RETURNS	39
6.6.7 IRS 4506-C	39
6.6.8 BANK STATEMENTS PROGRAMS	40
GENERAL RE	40
6.6.9 PROFIT AND LOSS STATEMENT PROGRAMS	44
6.6.10 ASSET UTILIZATION	45
6.6.11 RENTAL INCOME	46
6.6.12 VENEZUELA SPECIFIC	47
6.6.13 DEBT-SERVICE COVERAGE RATIO (DSCR)	47
6.7 QUALIFYING RATIOS	48
6.8 ASSETS	50
6.8.1 PURCHASE TRANSACTION	51
6.8.2 GIFT FUNDS	51
6.8.3 MARKETABLE SECURITIES	52
6.8.4 RETIREMENT ACCOUNTS	52
6.8.5 BUSINESS FUNDS	52
6.8.6 RESERVES	52
6.8.7 VENEZUELA SPECIFIC	53
7 PROPERTY TYPES	53
7.1 ELIGIBLE PROPERTY TYPES	53
7.1.1 CONDOMINIUMS	53
7.2 INELIGIBLE PROPERTY TYPES	55
8 INSURANCE REQUIREMENTS	56
8.1 PROPERTY INSURANCE COVERAGE FOR UNITS IN PROJECT DEVELOPMENTS	59
9 APPRAISAL REQUIREMENTS	62
9.1 ADDITIONAL REQUIREMENTS FOR NEW CONSTRUCTION	63
9.1.1 PRIMARY RESIDENCE, SECOND HOME OR INVESTMENT – NEW CONSTRUCTION	63
9.1.2 New Construction Limitations by Property Type:	64
9.2 APPRAISAL REVIEW REQUIREMENTS:	64



The power of yes.

9.2.1 The following transactions require a 2nd full appraisal:	64
9.2.3 Appraisal Reconsideration of Value	65
9.3 TRANSFER OF APPRAISAL TO A&D MORTGAGE	65
9.3.1 Appraisal Transfer Letter Must Include the Following Language:	65
9.3.2 Appraisal Transfer Documentation and Requirements:	66
9.3.3 Appraisal Review Requirements	66
10 TITLE AND CLOSING	66
10.1 TITLE POLICY FORMS	66
10.1.1 TITLE REQUIREMENTS	66
10.2 TITLE EXCEPTIONS	67
10.3 VESTING AND OWNERSHIP	67
10.3.1 INTER VIVOS REVOCABLE TRUST	67
10.3.2 LIMITED LIABILITY COMPANY (LLC)	68
10.3.3 CORPORATIONS, LIMITED AND GENERAL PARTNERSHIPS	69
10.3.4 GUARANTY	69
10.3.5 ENTITY IDENTITY REVIEW PROCESS	69
10.4 POWER OF ATTORNEY	69
11 INTERESTED PARTY CONTRIBUTIONS	70
12 COMPLIANCE	70
12.1 ADDING OR REMOVING A BORROWER	70
12.2 EXCLUSIONARY LIST/OFAC/DIPLOMATIC IMMUNITY	71
13 BORROWER SPECIFIC TRANSACTIONS	72
13.1 U.S. CITIZENS	72
13.2 PERMANENT RESIDENT ALIENS	72
13.3 NON-PERMANENT RESIDENT ALIENS	72
13.3.1 VERIFICATION OF RESIDENCY STATUS	72
13.3.2 CREDIT REQUIREMENTS	73
13.3.3 EMPLOYMENT/INCOME REQUIREMENTS	73
13.3.4 ASSET VERIFICATION	73
13.4 FOREIGN NATIONAL	74
13.4.1 VERIFICATION OF RESIDENCY STATUS	74
VISA WAIVER PROGRAM AND CITIZENS OF CANADA OR BERMUDA	74
13.4.2 CREDIT REQUIREMENTS	74
13.4.4 ASSETS & RESERVES	76
13.4.5 FOREIGN BORROWERS WITH PRIOR US RESIDENCY	77



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13.5 CO-BORROWERS	77
13.5.1 CO-BORROWERS WITH DIFFERENT RESIDENCY	77
13.6 NON-OCCUPANT CO-BORROWERS /CO-SIGNERS / GUARANTORS	77
13.7 MULTIPLE FINANCED PROPERTIES AND A&D EXPOSURE	77
13.8 INELIGIBLE BORROWERS	78



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1 INTRODUCTION

These guidelines serve to provide direction and consistency in loan, borrower, and property eligibility.

1.1 LENDING PHILOSOPHY

A&D Mortgage LLC (hereafter referred to as A&D) evaluates several aspects of the borrower's credit, income, asset and equity profile along with the loan's attributes to make a reasonable and good faith determination on the borrower's ability to repay the loan.

Investment quality is determined by the borrower's credit, capacity, and collateral. A weakness in any one of the three components must be compensated by strengths in one or both of the remaining two components.

A&D's Lending Eligibility Guidelines establish the criteria under which a loan is eligible.

A&D Mortgage has a no-tolerance policy as it relates to fraud. Lenders should follow the established fraud and identity procedures on every loan in an effort to prevent and detect fraud (including, but not limited to, Social Security number verification, verbal verifications of employment, processing of 4506-C, etc.). Loans containing fraudulent documentation or information will immediately be declined and submitted for further internal review. If there is any determination of Loan Originator involvement, the Loan Originator will be made inactive, and the appropriate agencies notified. A&D Mortgage will also pursue fraud carried out by a borrower, or any other person or party involved in the origination process, to the fullest extent of the law.

1.2 FAIR LENDING STATEMENT

A&D Mortgage operates in accordance with the provisions of the Fair Housing Act and Equal Credit Opportunity Act. The Fair Housing Act makes it unlawful to discriminate in housing-related activities against any person because of race, color, religion, national origin, sex, handicap, or familial status. The Equal Credit Opportunity Act prohibits discrimination with respect to any aspect of a credit transaction on the basis of sex, race, color, religion, national origin, marital status, age (provided the borrower has the capacity to enter into a binding contract), receipt of public assistance, or because the borrower has in good faith exercised any right under the Consumer Credit Protection Act. A&D Mortgage fully supports the letter and spirit of both laws and will not condone discrimination in any mortgage transaction.

1.3 RESPONSIBLE LENDING STATEMENT

The primary focus of this lending program is the extension of credit in a prudent manner such that the borrower has an ability to repay the mortgage obligation. Loans should be affordable to the borrower in his or her pursuit of homeownership and mortgage related financing needs.

A&D's Non-QM program guidelines are structured to guide its partners towards making common sense lending decisions on loans to borrowers who may have limited access to credit. A borrower's situation generally requires the lender to consider alternative forms of documenting income and/or compensating factors which offset risk indicated by less than pristine credit, such as a recent credit event or elevated



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debt-to-income ratio. The borrower's ability to repay must be proven in all instances as it relates to consumer-based lending.

Under the general Ability-to-Repay (ATR) standard, lenders must make a reasonable, good-faith determination that the consumer has an ability to repay the loan at or before loan consummation. Lenders must verify information using third-party records that provide reasonably reliable evidence of income or assets.

If a loan is subject to the ATR rules under the Federal Truth in Lending Act ("TILA"), lenders must consider eight underwriting factors in making the repayment ability determination:

- Current or reasonably expected income or assets (other than the value of the property that secures the loan) that the consumer will rely on to repay the loan.
- Current employment status (if the loan relies on employment income when assessing the consumer's ability to repay).
- Monthly mortgage payment for this loan. Calculate this using the introductory or fully-indexed rate, whichever is higher, and monthly, fully-amortizing payments that are substantially equal.
- Monthly payment on any simultaneous loans secured by the same property.
- Monthly payments for mortgage-related obligations, such as property taxes and insurance, homeowner's association fees or ground rent.
- Debts, alimony, and child support obligations.
- Monthly debt-to-income ratio or residual income, that was calculated using the total of all mortgage and non-mortgage obligations listed above, as a ratio of gross monthly income.
- Credit history.

A&D will not fund a loan subject to the ATR requirement under TILA unless it meets the requirements of the rule. Certain loans may be exempt from TILA or otherwise exempt from the ATR rule. In those cases, though A&D may choose to fund a loan that does not adhere to the formal requirements of the ATR rule, A&D will only fund loans that the applicant appears able to afford based on application of prudent underwriting standards.

1.4 REGULATORY COMPLIANCE

- Each loan must be originated, closed, serviced and transferred in compliance with all applicable federal, state and local laws, regulations and orders. Our compliance due diligence review, conducted on a secondary market basis, will analyze each loan to determine compliance with the necessary requirements.
- Note: A&D will review loans to ensure that they comply with applicable regulations that are primarily under the jurisdiction of the Consumer Financial Protection Bureau (the "CFPB").
- In addition, please note that there are other rules and regulations that may be applicable and that additional rules and regulations may be enacted, and that such rules and regulations may be amended from time to time, and therefore the implementation or revision of such rules and regulations will affect and be relevant to the products as set forth herein.
- Business Purpose and Occupancy Affidavit must be signed by the borrower at closing.

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2 GENERAL PROGRAM INFORMATION

2.1 PROGRAMS

A&D offers the loan programs below. See the appropriate A&D Matrices for additional details and criteria:

- A&D Owner Occupied / Second Home /Investment**

Program	Mortgage History	Min FICO	Credit Event (CE) Seasoning	Tradelines	Reserves	Residual Income
Super Prime	0x30x12 or 0x90x24	640	24 months	Standard	3 months	\$2,000
Prime	0x60x12	580	12 months	Standard	3 months	\$1,500

- A&D Investment Property / DSCR / Foreign National**

Program	Mortgage History	Min FICO	Credit Event (CE) Seasoning	Tradelines	Reserves	Primary Ownership Requirement
DSCR (No DTI)	0x30x12 or 0x90x24	599	24 months	Standard	3 Months	Required
Foreign National Full Doc	0x30x12 or 0x90x24	599	24 Months	Not Required	12 Months	Not Required
Foreign National DSCR	0x30x12 or 0x90x24	599	24 Months	Not Required	12 Months	Required

2.2 PRODUCTS

See latest applicable A&D Matrix.

2.3 LOAN AMOUNTS AND LOAN-TO-VALUES

See latest applicable A&D Matrix.

The lesser of the purchase price or appraised value of the subject property is the original value used to calculate the loan-to-value, with consideration to the value derived from the secondary valuation waterfall.

2.4 DOCUMENTATION

Documentation types include:

- Full Documentation
- Asset Utilization
- Personal Bank Statement Documentation
- Business Bank Statement Documentation
- Written Verification of Employment (WVOE)
- Profit and Loss Statement
- 1099 Income

2.5 LOAN AGE

The period between the note date and the A&D Mortgage funding date cannot exceed 90 days for correspondent loans. A&D will consider longer periods on a case-by case basis.

2.6 PREPAYMENT PENALTIES, POINTS, AND FEES

Total points, fees, and APR may not exceed current state and federal high-cost thresholds.

Prepayment penalties are allowed on investment property transactions - see applicable A&D Matrices for details.

Prepayment penalties on primary residence and second home transactions are prohibited.

Note: States may impose different definitions of points and fees, rate/APR, or prepayment penalties that apply under HOEPA. States may also use different triggers in each category for determining whether a loan will be a "high-cost mortgage" (or equivalent terms) under state law. As a matter of policy, A&D does not fund loans defined as high-cost mortgages (or equivalent terms) under Federal or state law, regardless of the basis for the loan's treatment as such.

2.6.1 FINANCING POINTS

A&D will allow the borrower to finance points and/or closing cost into the loan transaction by increasing loan amount based on the following parameters:

- Maximum base LTV for an owner-occupied property or second home = 75%
- Maximum base LTV for an investment property = 70%
- Maximum base LTV for DSCR property = 70%
- Maximum base LTV for Foreign National = 65%
- Maximum 2% may be financed into the transaction.
- The financed points will not raise the LTV for pricing purposes and eligibility criteria. The pricing and eligibility will remain based upon the original base loan amount or LTV without financing of points.

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2.7 EXCEPTIONS

Exceptions to published guidelines are considered on a case-by-case basis. Loans with exception requests should exhibit compensating factors. All exception requests must be submitted by the Requestor in writing to the Exceptions Committee via the Exception Form. The fully completed A&D Mortgage Exception Request Form along with any supporting documentation is required. A&D 's decision to allow or deny any exception request relates only to whether A&D will approve a loan.

2.8 ALTERNATIVE LOAN PROGRAM ANALYSIS

All loan applications are to be reviewed for possible approval under a traditional conventional conforming or FHA loan program offered by the seller. Lender is required to complete the A&D Mortgage Alternative Program Analysis Form to ensure borrowers are proceeding under the appropriate loan program.

2.9 ESCROWS – IMPOUND ACCOUNTS

Escrow funds/impound accounts are required to be established for all loans originated by A&D Mortgage. Escrows may be established for funds collected as required to be paid under the security instrument. Escrow funds include, but are not limited to, taxes, insurance (hazard, flood, and mortgage) premiums, special assessments, ground rents, water, sewer, etc.

A&D can waive escrow for TILA Non-HPML Loans on primary residence, second homes, and investment properties under Super Prime, Prime, DSCR and Foreign National programs. Please refer to A&D Matrix for LTV restrictions and additional criteria.

Flood Insurance Escrows can never be waived regardless of loan type or program.

3 OCCUPANCY TYPE

3.1 PRIMARY RESIDENCE

A primary residence (or owner-occupied property) is a dwelling occupied by the borrower as his or her principal residence.

To qualify as a primary residence, the transaction should meet each of the following criteria:

- Property is in the same general area as the borrower's employment,
- Borrower intends to occupy the subject property for the majority of the year,
- Borrower intends to occupy the subject property within 60 days of closing the loan, and
- Property possesses physical characteristics that accommodate the borrower's family.

3.2 SECOND HOME

A second home is a dwelling occupied by the borrower in addition to their primary residence (may also be referred to as a vacation home). Second homes are restricted to 1-unit dwellings.

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Typical second homes should meet the following criteria:

- Be located a reasonable distance away from the borrower's primary residence or located in an area considered a vacation area.
- Must be occupied by the borrower for some portion of the year.
- Suitable for year-round occupancy.
- Borrower must have exclusive control over the property.
- Must not be subject to any timeshare arrangements, rental pools or other agreements which require the borrower to rent the subject property or otherwise give control of the subject property to a management firm.

3.3 INVESTMENT PROPERTY

An investment property (or non-owner-occupied property) is an income-producing property that the borrower does not occupy.

The borrower is required to own a primary residence under the DSCR Program, however, is not required to own primary residence for other investment property programs with income verification.

Unless otherwise noted, gift funds are acceptable only if a 20% down payment has been made by the borrower from their own resources.

Please refer to A&D Matrices for additional details and criteria.

4 TRANSACTION TYPE

4.1 PURCHASE

A purchase transaction is one which allows a buyer to acquire a property from a seller.

4.1.1 DOCUMENTATION REQUIRED

A copy of the fully executed purchase contract and all attachments or addenda are required.

4.1.2 LOAN TO VALUE

The lesser of the purchase price or appraised value of the subject property is the original value used to calculate the loan-to-value, with consideration to the value derived from the secondary valuation waterfall.

4.2 REFINANCE

4.2.1 REFINANCE TYPES

- Rate/term refinance
- Cash-out refinance

CREDIT REQUIREMENTS FOR ALL REFINANCE TRANSACTIONS

- All mortgage accounts must be current at the time of application and remain paid as agreed through closing.
- For any mortgage associated with the subject property:
 - If the borrower had a mortgage late on the subject property within the last 12 months, the mortgage account must have been paid as agreed for the 3 months prior to closing of the new A&D transaction.
 - If the mortgage payoff statement indicates any evidence the borrower is delinquent, such as, but not limited to Attorney Fees, Default Interest or Modification Fee, A&D will require evidence of the last three months of verified mortgage payments via check, bank statement or wire transfer.

4.2.2 RATE/TERM REFINANCE

A rate/term refinance is the refinancing of an existing mortgage for the purpose of changing the interest and/or term of a mortgage without advancing new money on the loan.

The mortgage amount for a rate/term refinance is limited to the sum of the following:

- Existing first mortgage payoff.
- Closing costs and prepaid items (interest, taxes, insurance) on the new mortgage.
- The amount of any subordinate mortgage liens used in their entirety to acquire the subject property (regardless of seasoning).
- The amount of a home equity line of credit in first or subordinate lien position that was used in its entirety to acquire the subject property (regardless of seasoning).
- Any subordinate financing that was not used to purchase the subject property provided:
 - For closed end seconds, the loan is at least one year seasoned as determined by the time between the note date of the subordinate lien and the application date of the new mortgage.
 - For HELOCs and other open-ended lines of credit, the loan is at least one year seasoned and there have been less than \$2,000 in total draws over the past 12 months.

If the most recent first mortgage transaction on the property was a cash-out refinance within the last 6 months, the new mortgage is not eligible as a rate/term and must proceed as a cash-out refinance. Note date to note date is used to calculate the 6 months.

For rate/term transactions, the borrower may only receive cash back in an amount that is the lesser of 2% of the new mortgage balance or \$2,000.

4.2.3 CASH-OUT REFINANCE

A cash-out refinance is a refinance that does not meet the rate/term refinance definition. Cash-out would include a refinance where the borrower receives cash from the transaction or when an open-ended subordinate lien (that does not meet the rate/term seasoning requirements) is refinanced into the new transaction.



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A mortgage taken out on a property previously owned free and clear is always considered a cash-out refinance.

The mortgage amount for a cash-out refinance transaction may include any of the following:

- Existing first mortgage payoff.
- Closing costs and prepaid items (interest, taxes, insurance) on the new mortgage.
- The amount of any subordinate mortgage liens being paid off that do not meet seasoning and draw history requirements as described in Rate/Term Refinance section.
- The amount of any non-mortgage related debt paid off through closing.
- Additional cash in hand reflected on the settlement statement.
- Proceeds from the cash-out refinance maybe used to meet the reserve requirement per the program.

CASH-OUT SEASONING AND DETERMINATION OF VALUE

Cash-Out Seasoning of six (6) months or less on all occupancy types is allowed with the following restrictions:

- For properties acquired less than 6 months, maximum LTV ratio for the cash out transaction is based up on the lower of the current appraised value or the property's purchase price plus documented improvements.
- If Quitclaim Deed is used as a purchase method and no value is determined, maximum LTV of 65% is applied.
- Borrower must own property at the time of the application for Cash-out refinance.

Cash-Out Seasoning from six (6) to twelve (12) months is allowed with the following restrictions:

- The loan amount may not exceed the original purchase price plus any documented improvements to the subject property.

4.2.4 PROPERTIES LISTED FOR SALE

To be eligible for either a rate/term or a cash-out refinance, the subject property must be taken off the market on or before application date.

For investment property cash-out transactions, if the subject property was listed for sale in the 6 months prior to application date, a minimum of 12 months prepayment penalty would be required and the borrower cannot buydown to no prepayment penalty.

4.2.5 BENEFIT TO BORROWER

In keeping with the commitment of responsible lending, all primary residence and second home refinance transactions must have a benefit to the borrower, as evidenced by at least one or more of the following:

- Balloon payoff
- Title transfer
- Property retention
- Rate reduction



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- P&I reduction
- Debt reduction
- Avoidance of Foreclosure
- Uncontrolled cash-out

State-specific and/or federal benefit to borrower compliance requirements must be adhered to. A&D, as well as its Loan Originators, must document relevant calculations and data which support such benefit to the borrower. Additional restrictions apply if the new loan refinances an existing loan considered to be a special mortgage. A special mortgage is originated, subsidized, or guaranteed by or through a state, tribal, or local government, or nonprofit organization that either bears a below-market interest rate at the time the loan was originated or has nonstandard payment terms beneficial to the borrower, such as payments that vary with income, are limited to a percentage of income, or where no payments are required under specified conditions. If the borrower will lose one or more of the benefits of the special mortgage, then both of the following apply:

- Lender must check that the loan complies with all applicable state and local laws as well as laws associated with the subject special loan program;
- Lender must take special care to ensure a net tangible benefit to the borrower.

4.2.6 TEXAS SECTION 50(a)(6) TRANSACTIONS

- A Texas Section 50(a)(6) mortgage is a home equity (or cash-out) 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 Texas Home Equity transactions must comply with the more restrictive of the A&D Mortgage Loan Non-QM Underwriting Guidelines or the Texas Section 50(a)(6) Transactions description within these Guidelines. Loans in the state of Texas, that are not part of Texas Section 50(a)(6) transactions are required to have Non-Homestead Affidavit signed at closing. Underwriter must determine that borrower has enough evidence or proof of an actual primary residence or property where borrower resides at the time of application.

TEXAS SECTION 50(a)(6) SELLER CERTIFICATION

The seller certifies that with respect to the Texas Section 50(a)(6) mortgages delivered to A&D Mortgage:

- All Texas Section 50(a)(6) mortgages were (or will be) originated pursuant to written processes and procedures that comply with the provisions of the Texas Constitution applicable to mortgage loans authorized by Section 50(a)(6), Article XVI of the Texas Constitution, as amended from time to time.
- The seller has in place a specific process for the receipt, handling, and monitoring of notices from borrowers that seller failed to comply with the provisions of the law applicable to Texas Section 50(a)(6) mortgages. Such process must be adequate to ensure that the seller will correct the failure to comply by one of the authorized means no later than the 60th day after the date the seller is notified of the failure to comply by the borrower.



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- An attorney familiar with the provisions of Section 50(a)(6), Article XVI of the Texas Constitution was consulted (or will be consulted prior to origination of the Texas Section 50(a)(6) mortgages) in connection with the development and implementation of the processes and procedures used for the origination of the Texas Section 50(a)(6) mortgages.
- To ensure ongoing compliance with the law applicable to mortgage loans authorized by Section 50(a)(6), Article XVI of the Texas Constitution, the processes and procedures used for the origination of the Texas Section 50(a)(6) mortgages will be reviewed by the seller regularly and will be updated and revised, as appropriate pursuant to clarifications of the law, on a regular and continual basis.
- The seller certifies that it is lawfully authorized to make loans described by Section 50(a)(6), Article XVI, of the Texas Constitution.
- The matters certified herein are representations and warranties of the seller given to A&D Mortgage in connection with each Texas Section 50(a)(6) mortgage.

GENERAL REQUIREMENTS

The following parameters apply to Texas Section 50(a)(6) mortgages:

- Fixed 30 product, 5/1 ARM, 7/1 ARM (fully amortized only)
- Owner Occupied properties with All Documentation Types listed within the Guidelines
- Maximum LTV 80
- 1-unit properties only
- 1st lien only

TEXAS SECTION 50(a)(6) LOAN PARAMETERS

The following are considered Texas Section 50(a)(6) loans:

- Loans using proceeds to pay off an existing 50(a)(6) loan (as identified in title work). F2 conversions are allowed if borrower will not get cash back.
- Loans using proceeds to pay off or pay down debts that are not secured by the homestead property.
- Loans with any cash back to the borrower.

The following are **NOT** considered Texas Section 50(a)(6) loans:

- Loans using proceeds to pay current taxes due on the property securing the loan.
- Loans using proceeds to buy out equity pursuant to a court order or agreement of the parties (usually applies to a divorce settlement).
- Loans that include the payment of HOA dues if title company requires them to be paid.

TEXAS SECTION 50(A)(6) RESTRICTIONS

The following restrictions apply to Texas Home Equity loans:

- Texas Home Equity loans must wait at least one year since last 50(a)(6) loan to be refinanced.



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- There can be only one outstanding 50(a)(6) loan on a property at any given time.
- If the borrower has an existing 50(a)(6) second lien and is getting cash-out from the first mortgage, that lien must be paid off.
- The 50(a)(6) loan may not be used to acquire the property or to finance construction.

TEXAS SECTION 50(a)(6) OCCUPANCY

Texas Section 50(a)(6) requirements apply to primary residences only. All borrowers on the loan must be in title and occupy the subject property as their primary residence. 2nd homes and investment properties are exempt from Texas Section 50(a)(6) requirements.

TEXAS SECTION 50(a)(6) BORROWERS

The following borrowers are permitted on Texas Home Equity loans. All borrowers must maintain primary occupancy in the subject property:

- U.S. Citizens
- Permanent Resident Aliens
- Non-Permanent Resident Aliens

The following borrowers are not allowed:

- Co-signer(s)
- Non-occupant co-borrowers
- Borrowers not on title
- Foreign Nationals
- Corporations, partnerships, or LLCs
- Trusts
- Additionally, all non-married owners of the subject property must be borrowers.

TEXAS SECTION 50(a)(6) NON-BORROWING SPOUSE

A married borrower may not create a lien against the property unless his/her spouse consents to the lien by signing the following, where applicable:

- Notice Concerning Extension of Credit
- Security Instrument (including any Riders)
- Closing Disclosure One Day Before Closing
- Right of Rescission Notice
- Discount Point Disclosure
- Acknowledgment of Fair Market Value
- Premium Pricing Disclosure
- All owners must sign the application and the Notice Concerning Equity Loan Extension of Credit (English or Spanish). The signing of these documents starts the 12-day 'cooling off' period.



The power of yes.

- Texas Home Equity Affidavit and Agreement
- Owner's Affidavit of Compliance
- Receipt of Copies of Documents
- Certificate of Non-Cancellation of Loan

An owner-in-title (whether a spouse or individual) must sign the application and Texas Home Equity Notice (English or Spanish) at the time of application, along with all appropriate documentation.

TEXAS SECTION 50(a)(6) REFINANCING AN EXISTING HOME EQUITY LOAN

Effective for loans made on or after 1/1/18, existing home equity loans (as identified in title work) may be refinanced as non-home equity loans and secured with a lien against the home, provided the following conditions are met:

- the refinance occurs at least a year after the home equity loan was closed;
- the additional loan amount only covers the actual costs of the refinancing, and does not provide the consumer with additional funds;
- the value of the new loan combined with the total of the outstanding principal balances of all other valid indebtedness secured by the homestead does not exceed 80% of the fair market value of the homestead on the date the extension of credit is made; and
- the lender provides the homeowner the written notice (required by and promulgated under Section (f)(2)(D) and referenced below) on a separate document no later than the third business day after the date the owner submits the loan application and at least 12 days before the closing of the refinance.

The Notice Concerning Refinance of a Texas Home Equity Loan Pursuant to Subsection (f)(2) of Article XVI, Section 50 of the Texas Constitution', must be provided to the owner:

NOTICE CONCERNING REFINANCING A HOME EQUITY LOAN

YOUR EXISTING LOAN THAT YOU DESIRE TO REFINANCE IS A HOME EQUITY LOAN. YOU MAY HAVE THE OPTION TO REFINANCE YOUR HOME EQUITY LOAN AS EITHER A HOME EQUITY LOAN OR AS A NON-HOME EQUITY LOAN, IF OFFERED BY YOUR LENDER.

HOME EQUITY LOANS HAVE IMPORTANT CONSUMER PROTECTIONS. A LENDER MAY ONLY FORECLOSE A HOME EQUITY LOAN BASED ON A COURT ORDER. A HOME EQUITY LOAN MUST BE WITHOUT RECOURSE FOR PERSONAL LIABILITY AGAINST YOU AND YOUR SPOUSE.

IF YOU HAVE APPLIED TO REFINANCE YOUR EXISTING HOME EQUITY LOAN AS A NON-HOME EQUITY LOAN, YOU WILL LOSE CERTAIN CONSUMER PROTECTIONS. A NON-HOME EQUITY REFINANCED LOAN:

- (1) WILL PERMIT THE LENDER TO FORECLOSE WITHOUT A COURT ORDER;
- (2) WILL BE WITH RECOURSE FOR PERSONAL LIABILITY AGAINST YOU AND YOUR SPOUSE; AND
- (3) MAY ALSO CONTAIN OTHER TERMS OR CONDITIONS THAT MAY NOT BE PERMITTED IN A TRADITIONAL HOME EQUITY LOAN.

BEFORE YOU REFINANCE YOUR EXISTING HOME EQUITY LOAN TO MAKE IT A NON-HOME EQUITY LOAN, YOU SHOULD MAKE SURE YOU UNDERSTAND THAT YOU ARE WAIVING IMPORTANT PROTECTIONS THAT HOME EQUITY LOANS PROVIDE UNDER THE LAW AND SHOULD CONSIDER CONSULTING WITH AN ATTORNEY OF YOUR CHOOSING REGARDING THESE PROTECTIONS.

YOU MAY WISH TO ASK YOUR LENDER TO REFINANCE YOUR LOAN AS A HOME EQUITY LOAN. HOWEVER, A HOME EQUITY LOAN MAY HAVE A HIGHER INTEREST RATE AND CLOSING COSTS THAN A NON-HOME EQUITY LOAN.

For loans refinancing an existing home equity loan, the loan file must include the Texas Constitution Section 50(f-1) Affidavit Acknowledging Requirements of Subsection (f)(2), which must be properly executed under Texas law by the owner or the owner's spouse.

Note: All the above requirements must be met in order for the home equity loan to be refinanced as a non-home equity loan.

TEXAS SECTION 50(a)(6) 12-DAY COOLING OFF PERIOD

The Notice Concerning Equity Loan Extension of Credit must be provided to the borrower in English and an additional copy of the notice translated into the written language in which the discussions were conducted. To ensure the disclosure is provided to the borrower in the correct language, the loan officer must add a comment to the Loan Submission form identifying the language spoken. The processor must properly identify the language spoken when ordering documents.

- Loan may not be closed until at least 12 calendar days after the borrower has dated and signed the initial application and Notice Concerning Equity Loan Extension of Credit.
- E -consent signatures are acceptable.
- The "cooling off" period in which the borrowers, owners-in-title, and/or spouse (including non-borrowing spouse) can change his/her mind about the Texas Home Equity first mortgage runs from the later of:
 - The date the initial loan application is signed, or

The power of yes.

- The date that the Notice Concerning Equity Loan Extension of Credit is signed and dated by the borrowers, owners-in-title, and/or spouse.

TEXAS SECTION 50(a)(6) PAYOFF OF DEBT

Seller may require the payoff of the existing first lien as part of the loan approval when the following requirements are met:

- Seller may not require any other seller-owned debt be paid off as part of the transaction as a condition of loan approval.
- If the payoff of debts to other sellers/creditors is required in order to qualify the borrower, then those payoffs must be shown on the settlement statement and disbursed directly to the creditor by the title company.
- Debts that are elected to be for paid off by the borrower but are not required to be paid off in order to qualify the borrower, may be disbursed directly to the borrower.

TEXAS SECTION 50(a)(6) SECONDARY FINANCING

New subordinate financing is not allowed, but existing subordinate financing may remain in place. Existing subordinate financing is subject to the following:

- Second lien must be re-subordinated
- Maximum 80% LTV
- Second lien may not be a 50(a)(6), HELOC or a reverse mortgage

TEXAS SECTION 50(a)(6) PROPERTY CHARACTERISTICS

All properties must be residential in nature. Tax certification and exemptions for the property are to be reviewed and must meet the following requirements:

- Property must be a principal residence constituting the borrower's homestead in state of Texas.
- The homestead property may not exceed the applicable acreage limit as determined by Texas law.
- All separate structures must be included in the homestead exemption.
- The homestead parcel, as identified on the county appraisal district records, must include ingress/egress to a properly identified public road.
- The new lien may only be secured by the homestead parcel and the market value for LTV calculation can only be assessed on that parcel.

TEXAS SECTION 50(a)(6) URBAN AND RURAL HOMESTEAD DEFINITIONS

TEXAS HOME EQUITY HOMESTEAD DEFINITIONS		
	URBAN HOMESTEAD DEFINITION	RURAL HOMESTEAD DEFINITION
ACREAGE	Acreage securing the loan may not exceed 10 acres.	Acreage may not exceed 10 acres.
PROPERTY LOCATION AND SERVICES	Property must be located: <ul style="list-style-type: none"> - Within municipal boundaries, or - Its extraterritorial jurisdiction, or - A platted subdivision and be served by police protection, paid or volunteer fire protection, and at least three of the following services provided by a Municipality or under contract to a municipality: <ul style="list-style-type: none"> • Electric • Natural gas • Sewer • Storm sewer • Water 	The property is not located within municipal boundaries or its extraterritorial jurisdiction, or if the property is located in one of those types of areas: <ul style="list-style-type: none"> - It is not served by police protection or paid or volunteer fire protection provided by the municipality or under contract to a municipality, and - The municipality provides directly or under contract less than three (3) of the following services: <ul style="list-style-type: none"> • Electric • Natural gas • Sewer • Storm sewer • Water

Properties determined to be 'Urban' cannot exceed 10 acres. Property determined to be 'Rural' may not exceed 20 acres. The property should conform to and be acceptable in the market area. The appraisal must include the actual size of the site and not a portion of the site.

TEXAS SECTION 50(a)(6) CLOSING REQUIREMENTS
TEXAS SECTION 50(a)(6) ATTORNEY REVIEW

All documents must be reviewed by one of the following law firms (other attorneys may be acceptable when approved in advance by A&D Mortgage):

- Brown, Fowler, Alsup
- Black, Mann and Graham, LLP



The power of yes.

TEXAS SECTION 50(a)(6) CLOSING DISCLOSURE AND FINAL LOAN APPLICATION

The final Closing Disclosure (CD) and a copy of the final loan application must be delivered to/accepted by the borrower(s) during normal business hours one day before closing. Borrower must sign the Acknowledgment of Itemization of Fees, Points, Interest, Costs and Charges for Texas Home Equity Loan or Line of Credit to evidence their receipt of the final Closing Disclosure and loan application.

TEXAS SECTION 50(a)(6) POINTS AND FEES

Borrower paid fees are limited to 2% of the principal balance (including the origination fee). The following are not included in the 2% limitation:

- Lender paid closing costs
- Per diem interest
- Bona fide discount points used to reduce the interest rate
- Escrow/impound funds
- Appraisal fee paid to third-party appraiser
- Surveys (completed by state registered or licensed surveyors)
- HOA Maintenance Fees
- A state base premium for a mortgagee policy of title insurance with endorsements established in accordance with state law;

If borrowers are paying discount points, the borrowers, owners-in-title and/or spouse must execute the TX Home Equity Discount Point Acknowledgment.

Only fees which are allowed by State Law and RESPA/ECOA regulatory guidelines can be charged to the borrower and MUST be accurate and reflected on the Loan Estimate (LE) and the Closing Disclosure (CD).

TEXAS SECTION 50(a)(6) POWER OF ATTORNEY

Power of Attorney is not allowed.

TEXAS SECTION 50(a)(6) SURVEY

Surveys are required on all Texas Home Equity transactions to ensure the following:

- Confirm lot size
- Evidence homestead property and any adjacent land are separate
- Evidence of homestead and property is a separately platted and subdivided lot for which full ingress and egress is available (excluding rural properties)
- Properties must be served by municipal utilities, fire and police protection (excluding rural properties)
- Homestead must be separate parcel within permissible acreage

TEXAS SECTION 50(a)(6) TITLE



The power of yes.

A title insurance policy written on Texas Land Title Association forms (standard or short) including T42 and T42.1 endorsements is required.

For self-employed borrowers operating a business from the homestead property, the title company must issue a T42.1 endorsement without exception or deletion.

Title may not include language that:

- excludes coverage for a title defect that arises because financed origination expenses are held not to be “reasonable costs necessary to refinance”; or
- defines the “reasonable costs necessary to refinance” requirement as a “consumer credit protection” law since the standard title policy excludes coverage when lien validity is questioned due to a failure to comply with consumer credit protection laws.

Loans must be closed in a Texas title company’s office or attorney’s office. No mobile notaries are permitted.

TEXAS SECTION 50(a)(6) TEXAS HOME EQUITY DOCUMENTS

The following additional Texas Home Equity specific documents must be included in the closing package:

- Notice Concerning Extension of Credit Defined by Section 50(a)(6) (signed by each owner of the property and each spouse of an owner)
- Acknowledgment of Fair Market Value of Homestead Property (borrower and seller must sign at closing with an appraisal attached to the Acknowledgment)
- Notice of Right to Cancel (signed by each owner of the property and each spouse of an owner)
- Texas Home Equity Security Instrument (Form 3044.1)
- Texas Home Equity Note (Form 3244.1)
- Texas Home Equity Affidavit and Agreement (Form 3185)
- Texas Home Equity Condo Rider (Form 3140.44), if applicable
- Texas Home Equity PUD Rider (Form 3150.44), if applicable
- Texas Home Equity Certificate from Originating Lender’s Regarding Compliance with Section 50(a)(6) Article XVI of the Texas Constitution signed by the Seller’s Attorney
- Texas Home Equity Discount Point Acknowledgment, if applicable
- Affidavit of Non-Homestead for all other dwellings, if borrower owns more than one
- Detailed closing instruction letter acknowledged by title company (Compliance Requirements for Texas Home Equity Loans)

Note for any re-subordinating second (cannot be an (a)(6) Note, a new loan or a HELOC) with subordination agreement, if applicable.

5 TRANSACTION SPECIFIC

5.1 FLIP TRANSACTIONS

When the subject property is being resold within 365 days of its acquisition by the seller and the sales price has increased more than 10%, the transaction is considered a “flip”. To determine the 365-day period, the acquisition date (the day the seller became the legal owner of the property) and the purchase date (the day both parties executed the purchase agreement) should be used.

Flip transactions are subject to the following requirements:

- All transactions must be arm’s length, with no identity of interest between the buyer and property seller or other parties participating in the sales transaction.
- The property was marketed openly and fairly, through a multiple listing service, auction, for sale by owner offering (documented) or developer marketing.
- No assignments of the contract to another buyer.
- If the property is being purchased for more than 5% above the appraised value, a signed letter of acknowledgement from the borrower must be obtained.

Flip transactions must comply with the HPML appraisal rules in Regulation Z. The full Reg Z revisions can be found at <http://www.consumerfinance.gov/policy-compliance/rulemaking/final-rules/appraisals-higher-priced-mortgage-loans/>. A second appraisal is required in the following circumstances:

- Greater than 10% increase in sales price if seller acquired the property in the past 90 days.
- Greater than 20% increase in sales price if seller acquired the property in the past 91-180 days.

An additional appraisal product (CDA or equivalent) is required in the following circumstance – refer to Section 9.1:

- Greater than 20% increase in sales price compared to acquisition cost if seller acquired the property in the past 181-365 days.

5.2 NON-ARM’S LENGTH TRANSACTIONS

Non-arm’s length transactions involve a direct relationship outside of the subject transaction between a borrower and a party to the loan. The appraiser must be informed of the relationship and address any impact on market value.

Examples of non-arm’s length transactions include, but are not limited to, the following:

- Family member sales.
- Buyer trading properties with the seller.
- Property seller foreclosure bailouts.
- Existing buyer relationship with closing agent, appraiser, builder, or developer.

Non-arm’s length transactions are subject to all of the following requirements:

- Primary residence only.
- Relationship must be fully disclosed.
- An appraisal review product is required.
- Borrower to provide a written explanation stating relationship to the seller and reason for purchase.

The power of yes.

- Borrower to provide a copy of the canceled earnest money check paid to the property seller.
- A&D must be satisfied that the transaction makes sense and that the borrower will occupy the property.
- All liens on title to be paid in full and reflected on the settlement statement.
- Lesser of sales price or current appraised value to be used to calculate the LTV.
- Borrowers cannot provide services on transaction (closing agent, title agent, appraiser, etc.).
- Borrower may not be an owner of a business entity selling the subject property.
- If property was acquired by seller within last 12 months, lower of purchase price or appraised value will be used.

The following additional requirements apply only to family sales:

- Payment history for the seller's mortgage on the subject property must be obtained and show no pattern of delinquency within the past 12 months (if applicable). Foreclosure bailout is not allowed.
- Verification that the borrower has not been in title to the property in the past 24 months.
- Gift of equity is permitted.

5.3 INHERITED PROPERTIES

Inherited properties are allowed as both rate/term and cash-out transactions. If the subject property was inherited < 12 months prior to application, the transaction is considered a cash-out and subject to the following, if applicable:

- Subject property has cleared probate and property is vested in the borrower's name.
- Current appraised value is used to determine loan-to-value.

5.4 LAND CONTRACT/CONTRACT FOR DEED

When the proceeds of a mortgage transaction are used to pay off the outstanding balance on a land contract that was executed more than 12 months prior to the date of the loan application, the transaction is considered rate/term refinance.

If the land contract was executed within 12 months of the date of the loan application, the transaction is considered a **purchase**.

The following requirements apply:

- Primary residence only.
- Copy of fully executed land contract and payoff(s) to be obtained.
- Copies of canceled checks for 12 months (or term of the lease if less) as evidence of timely payments.
- If the land contract was executed less than 12 months ago, the borrower's previous housing payment history must also be verified to complete a completed 12-month history.
- Liens on title to be paid in full and reflected on settlement statement at closing.
- If the contract was executed less than 12 months ago, the lesser of the purchase price or the current appraised value must be used to determine LTV. The current appraised value may be used to determine LTV if the land contract was executed over 12 months ago.
- Cash-out and non-arm's length transactions not eligible.

5.5 LEASE WITH PURCHASE OPTION

Lease with purchase option transactions are allowed for primary residences only. Borrowers may apply a portion of the rent paid to their down payment requirements.

For lease with purchase option transactions, the file must contain:

- Copy of fully executed rental/purchase agreement verifying monthly rent and the specific terms of the lease.
- Rent Schedule (FNMA Form 1007).
- Copies of canceled checks for 12 months (or term of lease if less) as proof of rental payments.
- Credit for down-payment can only be a difference between current rent and market rent.

5.6 PERMANENT FINANCING FOR NEW CONSTRUCTION

The conversion of construction-to-permanent financing involves the granting of a long-term mortgage to a borrower to replace interim construction financing obtained by the borrower to fund the construction of a new residence. The borrower must hold title to the lot, which may have been previously acquired or purchased as part of the transaction.

When a refinance transaction is used, the borrower must have held legal title to the lot before he/she applied for the construction financing and must be named as the borrower for the construction loan.

A construction-to-permanent transaction may be closed as a purchase, rate/term refinance or cash-out refinance. All construction work must be complete.

For lots owned ≥ 12 months from application date for the subject transaction, LTV is based on the current appraised value.

For lots owned < 12 months from application date for subject transaction, LTV is based on the lesser of the current appraised value of the property or the total acquisition costs (sum of construction costs and purchase price of lot).

5.7 STATE SPECIFIC

NEW YORK

A&D allows state specific transactions in New York including CEMA loans. Please refer to pricing matrix.

- Closing Protection Letter is not required
- Professional Liability endorsed to A&D Mortgage is required



The power of yes.

For loans located in New York, the following LTV restrictions apply:

Type	Maximum LTV
Owner Occupied	75%
DSCR	75%
Foreign National	70%

5.8 1031 EXCHANGE

Assets for the down payment from a “like-kind exchange,” also known as a 1031 exchange, are eligible if properly documented and in compliance with Internal Revenue Code Section 1031.

5.9 DELAYED FINANCING

Upon purchasing a home without any mortgage financing, in which the borrower secures cash-out proceeds via a subsequent transaction within 6 months from the closing date of the purchase, such subsequent transaction will not be considered a cash-out but rather a purchase. The new loan amount for the subsequent transaction cannot be greater than the borrower’s investment in purchasing the property plus the financing of fees.

6 UNDERWRITING

6.1 MANUAL UNDERWRITING

All Non-QM loans are required to be manually underwritten. A&D Non-QM Guidelines are proprietary portfolio guidelines and can be used as an overlay to the most recent version of the FNMA Guidelines found at <https://www.fanniemae.com/content/guide/selling/index.html>. Where the Non-QM guidelines are silent, FNMA Guidelines may be followed, subject to underwriter discretion.

6.2 AGE OF DOCUMENTATION

Credit documents include credit reports, employment, and income documentation. If the credit documents are older than allowed, the document must be updated.

Type	Age of Documentation
Credit Report	No more than 120 days before date Note is signed.
Income	No more than 90 days before date Note is signed.
Assets	No more than 90 days before date Note is signed.
Appraisal*	No more than 120 days before date Note is signed. *Re-certification allowed with current market comps no older than 90 days.
Title Commitment & Closing Protection Letter	No more than 60 days before date Note is signed.

6.3 CUSTOMER IDENTIFICATION PROGRAM (CIP)

The USA Patriot Act requires banks and financial institutions to verify the name, date of birth, address, and identification number of all borrowers. Loan Originators are to follow the published CIP procedures for A&D to ensure the true identity of all borrowers has been documented – the CIP requirements can be found at https://www.ffiec.gov/bsa_aml_infobase/pages_manual/olm_011.htm

6.4 FRAUD REPORT & LOAN INTEGRITY

All loans must include a third-party fraud detection report for all individuals as borrowers/guarantors. Report findings must cover standard areas of quality control including, but not limited to:

- borrower validation,
- social security number verification,
- National Fraud Protection Database check, and
- property information (subject property and other real estate owned).

*All high-level alerts on the report must be addressed and cleared by the Lender

The power of yes.

If the Lender cannot electronically access the fraud report to clear high-level alerts within the fraud provider's system, an Underwriter's Certification from the Lender is acceptable. The Certification must address each individual high alert and explain what actions were taken to satisfy the issues. It must be signed and dated by a member of the Lender's underwriting staff or operations management personnel.

6.5 CREDIT STANDARDS

A tri-merged credit report is required. Unless otherwise addressed per specific program/borrower type, Fannie Mae underwriting guidelines must be followed for evaluating a borrower's credit history.

Credit reports with bureaus identified as "frozen" are required to be unfrozen and a current credit report with all bureaus unfrozen is required.

6.5.1 CREDIT SCORES

US Citizens, Permanent Residents or Non-Permanent Residents residing in United States, the lowest qualifying score of all applicants is used to qualify. The qualifying score is defined as the lower of 2 or middle of 3 scores for each borrower. Borrowers with 1 available credit score reviewed on a case-by-case basis. Borrowers with no available credit score which contain no evidence of prior adverse or negative credit history are eligible for financing in the Prime & DSCR programs. Such borrowers will be underwritten to a 580 Representative Score.

Foreign Nationals are not subject to credit score requirements unless Credit Score history is available. Foreign Nationals with active credit scores, will use middle of 3 or lowest for 2 or 1 if only 1 score available for FICO/LTV eligibility criteria and worst-case pricing.

For all programs, the applicable credit score is the middle of three scores provided for any borrower. If only two credit score are obtained, the lesser of two will be used. When there are multiple borrowers/guarantors, the lowest applicable score from the group of borrowers/guarantors is the representative credit score for qualifying (the Representative Loan Score).

6.5.2 TRADELINE REQUIREMENTS

Refer to program specific guidelines for additional tradeline requirements, if any.

Minimum Tradelines		
Tradelines	Occupancy	Minimum Requirements
STANDARD TRADELINES	Primary and Second Homes Investment	3 tradelines reporting for 12 or more months OR 2 tradelines reporting for 24 or more months

To qualify as an acceptable tradeline, the credit line must be reflected on the borrower's credit report. The tradeline requirement applies to all borrowers whose income was used for qualification purposes. The account may be open or closed.

Reporting tradeline period refers to how many months such tradeline has been captured on the credit report.

Accounts with delinquencies are allowed when the account has reported no more than 30-days past due. An acceptable 12 or 24-month housing history not reporting on credit report may also be used as a tradeline.

Credit lines on which the borrower or co-borrower is not obligated to make payments are not acceptable for establishing a minimum history. Examples of unacceptable tradelines include loans in a deferment period, collection or charged-off accounts, accounts discharged through bankruptcy, and authorized user accounts. Student loans can be counted as tradelines as long as they are in repayment and are not deferred.

6.5.3 STANDARD TRADELINES

Borrowers qualifying with Standard Tradelines are eligible for all occupancy types and programs.

6.5.4 LIMITED TRADELINES

When a borrower does not meet the requirements for Standard Tradelines, the requirements for Limited Tradelines may be applied. The following requirements apply when qualifying with Limited Tradelines:

- Primary residence, second homes and investment properties allowed under "Prime" program.
- 10% minimum borrower contribution for owner occupied and minimum 20% borrower contribution on investment property.

When qualifying with Limited Tradelines, the lower of either the Representative Loan Score or a 599 score is used to qualify the borrower under Prime. The loan may be priced using the actual Representative Loan Score.

6.5.5 INSUFFICIENT TRADELINES/ALTERNATIVE CREDIT

If the borrower does not meet the requirements for Standard Tradelines but still has a valid credit score and alternative trade lines, borrower may still qualify based on underwriter discretion.

6.5.6 CREDIT EVALUATION

All accounts, revolving and installment, reported by the borrower on the application must be verified directly by a credit reference or verified on the credit report. The balance, rating and terms of the account must be verified.

Past due consumer debts can be no more than 30 days past due at time of closing.

Credit Events and bankruptcies in the most recent 2 years must be explained by the borrower with a signed letter of explanation. Housing and consumer lates ≥ 60 days in the last 12 months also require written explanation. Supporting documentation may be required.

The underwriter must review the credit report for consumer lates to determine if the credit history is acceptable for the related program. If the consumer lates are not acceptable, underwriter may downgrade the allowable program or can choose to decline to extend credit to such borrower.

6.5.7 MORTGAGE PAYMENT HISTORY

Mortgage payment history for the subject property must be verified for the most recent 24 months, including a mortgage reported on the credit report and for mortgages not reported on the credit report.

- See below regarding delinquency requirements.
- Mortgage must be reviewed up to and including the month prior to the closing of the new loan.
- Mortgages must be current at application and closing.

Acceptable sources include institutional or private Verification of Mortgage (VOM). The underwriter must obtain the current balance, current status, monthly payment amount and a satisfactory 24-month payment history. Cancelled checks are only required for the most recent 3 months to verify the validity of the 24-month VOM.

ANALYZING DELINQUENT MORTGAGE PAYMENTS HISTORY

Mortgage/housing payment history is determined as follows:

- 3 rolling 30-day lates are considered 1x30, each consecutive mortgage delinquency thereafter must be considered separately.
- 60, 90, 120-day lates are not considered for rolling.
- Borrowers who were in a forbearance agreement are eligible if their payment history is available and the borrowers have been making timely monthly payments since the forbearance period ended. If the payment history is not available or if the borrowers missed any payments after the forbearance period ended, the borrowers are not eligible.
- Borrowers who accepted a payment deferral plan and demonstrate a payment history reflecting three timely payments on their mortgage are eligible.

The power of yes.

Following program eligibility criteria applies:

Program	Delinquency Requirement	Description
Super Prime	0x30x12 and 0x90x24	Borrower cannot have mortgage lates within last 12 months and 0x90 mortgage lates on the credit report within last 24 months
Prime	0x60x12	Borrower cannot have 0x60 mortgage lates within last 12 months on credit report
DSCR	0x30x12 and 0x90x24	Borrower cannot have mortgage lates within last 12 months and 0x90 mortgage lates on the credit report within last 24 months
Foreign National	0x30x12 and 0x90x24	Borrower cannot have mortgage lates within last 12 months and 0x90 mortgage lates on the credit report within last 24 months

HOUSING PAYMENT HISTORY FOR ADDITIONAL PROPERTIES OWNED BY BORROWER:

When the borrower owns additional property other than the subject property, verification of any mortgage liens on the other properties is required. If the property is indicated to be free and clear of any liens, the underwriter may accept the following indicating no liens:

- Homeowners insurance indicating no mortgagee.
- A 3rd party lien search or written documentation received from <http://www.protitleusa.com/>.

Borrower's owning 4 or more properties, the following criteria will apply:

- A mortgage history will be required on (3) largest investment properties, including the subject property (unless subject transaction is a purchase). In addition, the borrower's primary residence housing history is required to be verified.
- VOM or equivalent – Private Lender – When investment properties are financed by a Private Lender, only 3-months of cancelled checks or bank statements (reflecting the ACH payment) verifying timely payments will be required. In addition, the payoff statement for the subject property can reflect no more than 30-days of accrued interest.

For borrower's owning fewer than 4 properties, the payment history for all financed properties must be verified for the most recent 24-month period.

HOUSING PAYMENT HISTORY PROPERTIES OWNED BY BUSINESS:

Properties other than subject property not reported on credit report owned by the business are excluded from liabilities and housing verification. Evidence the property is owned by the business must be documented (lien search showing the property is owned by the business,

The power of yes.

mortgage statement showing borrower is the business, 12-months cancelled checks, or other 3rd party documentation to confirm the property is owned by the business.

6.5.8 PAYMENT HISTORY ON ANY OTHER PROPERTY

Regardless of occupancy, payments on a manufactured home or second mortgage are considered to be a mortgage debt, even if reported as an installment loan.

6.5.9 CREDIT EVENTS – BANKRUPTCY / FORECLOSURE / SHORT-SALE / DEED-IN-LIEU / MODIFIED LOAN

A&D considers Bankruptcy, Foreclosure, Short-Sale, Died-in-Lieu and Loan Modification as a prior Credit Event. Refer to the specific product matrix for further seasoning requirement information.

CHAPTER 7, 11 AND CHAPTER 13 BANKRUPTCY

SUPER PRIME VERIFICATION CHAPTER 7, 11, 13

Chapter 7, 11 and Chapter 13 bankruptcies must be discharged/dismissed for a minimum of 24 months from closing date. Seasoning is measured from the month and year of discharge.

PRIME VERIFICATION CHAPTER 7, 11, 13

Chapter 7, 11 and Chapter 13 bankruptcies must be discharged/dismissed for a minimum of 12 months from closing date. Seasoning is measured from the month and year of discharge

DSCR VERIFICATION CHAPTER 7, 11, 13

Chapter 7, 11 and Chapter 13 bankruptcies must be discharged/dismissed for a minimum of 24 months from closing date. Seasoning is measured from the month and year of discharge.

FOREIGN NATIONAL VERIFICATION CHAPTER 7, 11, 13

Chapter 7, 11 and Chapter 13 bankruptcies must be discharged/dismissed for a minimum of 24 months from closing date. Seasoning is measured from the month and year of discharge.

6.5.10 COLLECTIONS AND CHARGE-OFFS

The following accounts may remain open:

- Collections and charge-offs < 24 months old with a maximum cumulative balance of \$2,000
- Collections and charge-offs ≥ 24 months old with a maximum of \$2,500 per occurrence
- Collections and charge-offs that have passed beyond the statute of limitation for that state (supporting documentation required)
- All medical collections

For the Super Prime Program and the DSCR Investment Credit Grade, collection and charge-off balances exceeding the amounts listed above must be paid in full.

Under all other programs, collection and charge-off account balances remaining after the exclusions listed above may remain open when one of the following is met:

The power of yes.

- Borrower has sufficient reserves to cover remaining collection and charge-off balances (in addition to the published reserve requirement); or
- Payment for remaining collections and charge-offs included in DTI results in final DTI \leq 50% (payment calculated at 5% of balance of remaining unpaid collections and charge-offs).

A combination of the two options above is allowed. A portion of the unpaid collection balance can be included in the DTI while the remainder is covered by excess reserves. Collections and charge-offs that cannot be factored into DTI or reserves must be paid off. Exceptions may be applied with compensations factors on a case-by-case basis.

6.5.11 INQUIRIES

A detailed explanation letter that specifically addresses both the purpose and outcome of each inquiry in the last 90 days is required when such inquiry did not result in new debt. If additional credit was obtained, a verification of that debt must be obtained and the borrower re-qualified with the additional debt.

Inquiries that resulted in new debt that appear on the credit report/soft pull report do not require explanation.

6.5.12 LAWSUIT OR PENDING LITIGATION

If the application, title, or credit documents reveal that the borrower is presently involved in a lawsuit or pending litigation, a statement from the borrower's attorney is required. The statement must explain the circumstances of the lawsuit or litigation and discuss the borrower's liability and insurance coverage.

6.5.13 GAP CREDIT REPORT

A gap credit report is required within 10 calendar days of closing. Gap credit report is also known as soft pull or credit refresh.

6.5.14 JUDGMENTS AND TAX LIENS

Tax liens and court-ordered judgments must be paid in full.

6.5.15 FEDERAL INCOME TAX INSTALLMENT AGREEMENTS

When a borrower has entered into an installment agreement with the IRS to repay delinquent federal income taxes, the lender may include the monthly payment amount as part of the borrower's monthly debt obligations (in lieu of requiring payment in full) if:

- There is no indication that a Notice of Federal Tax Lien has been filed against the borrower
- The lender obtains the following documentation:
 - an approved IRS installment agreement with the terms of repayment, including the monthly payment amount and total amount due; and

The power of yes.

- evidence the borrower is current on the payments associated with the tax installment plan. Acceptable evidence includes the most recent payment reminder from the IRS, reflecting the last payment amount and date and the next payment amount owed and due date. At least one payment must have been made prior to closing.

If any of the above conditions are not met, the borrower must pay off the outstanding balance due under the installment agreement with the IRS in accordance with Fannie Mae requirements: B3-6-07, Debts Paid Off At or Prior to Closing.

6.5.16 BANK STATEMENTS ANALYSIS TOOLS

A&D can accept bank statement analysis tools for calculation of deposits and NSF's attached to the file with underwriter's certification and bank statements review.

6.6 INCOME AND EMPLOYMENT

Stable monthly income is the borrower's verified gross monthly income from all acceptable and verifiable sources that can reasonably be expected to continue. While the sources of income may vary, the borrower should have a consistent level of income despite changes in the sources of income.

Can commingle documentation types subject to guideline restrictions and underwriter discretion (i.e. no tax returns in bank statement programs, DSCR is standalone).

Verification for Employed Borrowers:

A&D is allowing some flexibility in lieu of the traditional verbal verification of employment with one of the following methods:

- Written VOE: An email directly from the employer's work email address that identifies the name and title of the verifier and the borrower's name and current employment status may be used in lieu of a verbal VOE. This is required no more than 10 days prior to the note date.
- Paystub: The underwriter may obtain a year-to-date paystub from the pay period that immediately precedes the note date.
- Bank statements: A&D can obtain bank statements evidencing the payroll deposit from the pay period that immediately precedes the note date.

Verification for All Self-Employed Borrowers:

- Underwriter must verify the existence of the business within 30-days of the note date and ensure the business is active, using reasonable forms of verification such as but not limited to: business bank statement showing activity for the last 30 days, certificate of good standing issued within last 30 days, invoices or a letter from a business tax professional issued within last 30 days, regulatory agency or licensing bureau etc. Such information may be supplemented with an internet search or phone listing and/or business address.
- Underwriter must consider the financial strength of a self-employed borrower's business.

The power of yes.

Furloughed Borrowers:

A furlough is a suspension from active employment that does not typically guarantee restoration of an employee's position when the furlough period ends. Until furloughed employees return to work, they are unable to provide evidence of a stable and reliable flow of employment related income and are therefore ineligible.

6.6.1 FULL INCOME DOCUMENTATION (24-months)

- When tax returns are required, the most recent two years should be provided. The definition of most recent is the last return scheduled to have been filed with the IRS. Any Borrower that applied for a tax return extension must provide a copy of the extension in the credit file along with the prior two years of tax returns.
- Wage or Salaried Borrowers:
 - A completed Request for Verification of Employment (Form 1005 or Form 1005(S)), or the borrower's recent paystub (reflecting 30 days of pay and YTD earnings) and IRS W-2 forms covering the most recent two-year period.
 - A verbal VOE from each employer within 10 calendar days of the note date. The verbal VOE should not indicate a significant reduction of hours or earnings.
 - A completed, signed, and dated IRS Form 4506-C is required for each borrower. The form should be executed and the W-2 transcripts for the most recent two-years should be included in the credit file. When tax returns are in file, Tax Return transcripts are required in lieu of W-2 transcript. Any discrepancies between the two documents should be explained, and if necessary, additional documentation obtained.
 - Pay stubs and W-2s must be typed or computer generated. They should provide the borrower's full name, address, employer name, year-to-date earnings, and rate of pay.
 - If pay stubs reflects garnishments (child support, IRS, etc.), additional information will be required to determine if a monthly payment should be included in the debt-to-income ratio calculation
 - W-2s should reflect a nine-digit Employer ID Number (EIN). Also, Social Security and Medicare withholding should be calculated at the appropriate rates on the W-2s and pay stubs.
- Self-Employed Borrowers:
 - Most recent two years of tax returns, personal and business if applicable (including all schedules)
 - A YTD P&L (Borrower prepared acceptable, borrower required to sign the P&L) if a gap exists between the tax return ending date and current year to date of more than 60 days. Qualifying income is determined from the tax returns, the P&L is used to determine that income is stable.
 - A complete, signed, and dated IRS Form 4506-C is required for each borrower(s) personal tax return, the forms should be executed, and the transcripts included in the

credit file. The tax returns and transcripts should be compared; any discrepancies should be explained, and if necessary, additional documentation obtained.

6.6.2 FULL INCOME DOCUMENTATION (12-months)

- When tax returns are required, as in the case of investment property ownership, the most recent year should be provided. The definition of most recent is the last return scheduled to have been filed with the IRS. Any Borrower that applied for a tax return extension must provide a copy of the extension in the credit file along with the prior year tax return.
- Wage or Salaried Borrowers:
 - A completed Request for Verification of Employment (Form 1005 or Form 1005(S)), or the borrower's recent paystub (reflecting 30 days of pay and YTD earnings) and IRS W-2 form for the most recent tax year.
 - A verbal VOE from each employer within 10 calendar days of the note date. The verbal VOE should not indicate a significant reduction of hours or earnings.
 - A completed, signed, and dated IRS Form 4506-C is required for each borrower. The form should be executed and the W-2 transcripts for the most recent year should be included in the credit file. When tax returns are in file, Tax Return transcripts are required in lieu of W-2 transcripts. Any discrepancies between the two documents should be explained and if necessary additional documentation obtained to satisfactorily address.
 - Pay stubs and W-2s must be typed or computer generated. They should provide the borrower's full name, address, employer name, year-to-date earnings, and rate of pay.
 - If pay stubs reflects garnishments (child support, IRS, etc.) additional information will be required to determine if a monthly payment should be included in the debt-to-income ratio calculation.
 - W-2s should reflect a nine-digit Employer ID Number (EIN). Also, Social Security and Medicare withholding should be calculated at the appropriate rates on the W-2s and pay stubs.
- Self-Employed Borrowers:
 - Most recent year of tax returns, personal and business if applicable (including all schedules)
 - A YTD P&L (Borrower required to sign the P&L) if a gap exists between the tax return ending date and current year to date of more than 60 days. Qualifying income is determined from the tax returns, the P&L is used to determine that income is stable.
 - A complete, signed, and dated IRS Form 4506-C is required for each borrower(s) personal return, the forms should be executed, and the transcripts included in the credit file. The tax returns and transcripts should be compared; any discrepancies should be explained, and if necessary, additional documentation obtained.
 -

6.6.3 OTHER SOURCES OF INCOME

The following sources of income must be verified using Fannie Mae requirements. In addition, Bonus, Commission, and Overtime only permitted with Full Income (24 or 12 Months) documentation.

- Bonus*
- Commission*
- Overtime*
- Part-time/Variable (uninterrupted and stable*)
- Retirement
- Social security (can be grossed up 25% if qualified by Full Documentation with Tax Returns)
- Pension
- Investment and Trust
- Military or government assistance
- Child support and alimony
- Rental Income: should be documented through Schedule E of the borrower's tax returns. If property has not previously been rented, then income will be calculated based on the lower of the lease agreement or 1007 multiplied by 75% for property.

* A period of two or one year must be used in calculating the average overtime, bonus, and commission income. If either type of income shows a continual decline, written justification on the income worksheet must be provided, or income should not be used. For Part-time employment, a minimum of no less than twelve (12) months may be considered case-by-case if positive factors are present to offset shorter history.

6.6.4 WRITTEN VERIFICATION OF EMPLOYMENT (WVOE)

A written Verification of Employment may be utilized when the only source of earnings is wages/salary.

- Two-year history with same employer is required.
- Completed FNMA Form 1005
- Paystubs, Tax Returns, 4506-C, or W-2's not required.
- Must be completed by Human Resource, Payroll Department or Officer of the Company.

6.6.5 1099 INCOME

Payments to sole proprietors or contract individuals are reported on IRS Form 1099 and included in the borrower's Schedule C. Tax returns may be waived and wage-earner documentation requirements followed in [8.1.1 Wage-Earners](#) when all of the following requirements are met:

- 1099s for the most recent 2 years are provided
- 1099s are from the same single employer for the past 2 years
- 1099s are validated with a wage and income transcript from the IRS
- Year-to-date earnings are verified via a YTD paystub, written VOE, or other equivalent third-party documentation

The power of yes.

If the borrower does not meet the requirements above, tax returns for the most recent 2 years (IRS Form 1040) are required to determine income and related expenses.

Note: 1099 forms covering a full 2-year period are not required when a borrower changes from being paid W-2s to 1099s while working for the same employer in the same position.

6.6.6 FEDERAL INCOME TAX RETURNS

For some types of income, federal income tax returns (personal and/or business) are required. Refer to section 6.6.1 above for specific requirements.

6.6.7 IRS 4506-C

IRS Form 4506-C must be completed and signed by all borrowers both at application and closing. The form must request the appropriate documentation type (W-2s, full tax transcripts, etc.).

Form 4506-C form must be processed, and transcripts obtained prior to closing in the following circumstances:

- **Wage Earners**
 - Handwritten paystubs are used as verification of income.
 - There is a relationship between the parties (W-2 transcripts acceptable unless other sources of income are utilized).
- **Self-Employed**
 - **Borrower pulled** Individual tax transcripts are required. Business tax transcripts must be obtained if income from the business does not flow through to the borrower's personal tax returns or business income appearing on personal transcripts is not consistent with the income on the business tax returns.

The request of tax transcripts will follow AUS findings for the level of income documentation required. A 4506-C form will be required to be signed at time of disclosure, however, transcripts will only be requested at underwriter's discretion.

If the transcript request is returned with a code 10 or the borrower is a victim of taxpayer identification theft, the following requirements must be met to validate income;

1. Copy of the IRS rejection with a code of "Unable to Process" or "Limitation".
2. Proof of identification theft, as evidenced by one (1) of the following:
 - a. Proof ID theft was reported to and received by the IRS (IRS form 14039).
 - b. Copy of notification from the IRS alerting the taxpayer to possible identification theft.
3. In addition to one (1) of the documents above, all applicable documents below must be provided:
 - a. Tax Transcript showing fraudulent information.
 - b. Record of Account from the IRS - Adjusted Gross Income and Taxable Income should match the borrower's 1040s. Validation of prior tax year's income (income for current year must be in line with prior years).
4. Proof of e-filing, as evidenced by one of the following
 - a. Cancelled check or withdrawal from taxpayer's account to IRS or,
 - b. Refund showing a deposit into the account



The power of yes.

What year to use: If W2s or tax returns are being used to determine income, the A&D Underwriter would qualify the borrower with income shown on the validated transcript corresponding to the number of years used for qualifying purposes.

6.6.8 BANK STATEMENTS PROGRAMS

BANK STATEMENT INCOME DOCUMENTATION

The Bank Statement Income Program is available for self-employed borrowers only. Four bank statement documentation options are available.

- 12-month personal bank statements
- 24-month personal bank statements
- 12-month business bank statements
- 24-month business bank statements

GENERAL REQUIREMENTS FOR ALL BANK STATEMENT INCOME PROGRAMS

The following are general rules for the Bank Statement Income programs. Refer to the specific borrower type for additional requirements.

- The borrower's business used for qualifying purposes must have been in existence for at least two years. A change in structure is allowed with proper documentation – example borrower previously was a sole proprietor but has changed structure to an LLC.
- All parties listed on each bank account must also be borrowers on the loan (personal bank statements)
- The borrower or tax preparer must provide a written, signed statement to include the following information about the business:
 - The nature of the business
 - How income is generated
 - How long the business has been in existence
- Statements must be the most recent consecutive months available at the application date, all pages. Must comply with documentation age requirement in Section 6.2. Should Age from the most recent bank statement provided to note date is over the age requirement, additional statements must be provided to meet age requirements.
- Underwriter must verify the business is currently open and operating within 30 days of the note date (see examples of verification methods within these Guidelines).
- Statements must support stable and generally predictable deposits.
- Unusual deposits should be documented. Unusual deposits will be determined by the underwriter's analysis of the loan file.
- Deposits/earnings trend showing a consistent decline over the prior years should not be considered as stable or usable income for qualification purposes. A written explanation for the decline should be obtained from the borrower and/or employer. In instances where there is sufficient information to support the use of the income, the most recent lower income over the prior 2-year period must be used and may not be averaged.

The power of yes.

- Statements can be accepted from banks, thrifts, credit unions and other regulated financial institutions. Well-recognized payment processors such as PayPal can be considered on a case-by-case basis.
- Additional income deposited into the bank accounts but derived from a source other than the self-employed business may not be included in the bank statement average (personal bank statements).
 - W-2 earnings or other income sources not associated with self-employment, such as employed as a wage earner or spouse's income, must be documented using Full Doc.
 - When wage income is combined with bank statement documentation, a tax return is not required for the full income documentation, as this would invalidate the bank statements.
 - The 4506-C is still required; however, box 8 should be checked to obtain a transcript of W-2 earnings only.
 - Rental income must be documented using fully executed lease (not required for subject property). Schedule E must not be provided for bank statement documentation program.
 - 4506-C is not required except as described above for co-mingled income.
 - Tax returns and Transcripts are not required for the program and must not be provided. If Tax returns and/or Transcript are provided the loan will be ineligible for bank statement documentation.
 - Bank Statements in foreign languages may be provided by Chase, Wells Fargo or other United States banking institutions along with a copy of printouts from accounts with verifiable URL references are acceptable

NON-SUFFICIENT FUNDS (NSF)

Non-sufficient funds (NSF) or negative balances reflected on the bank statement must be considered. Occurrences included in the analysis are subject to the following tolerances:

- 1 NSF occurrence is defined as one or more checks returned the same day.
- Up to 3 NSFs occurrences in the most recent 12-month period are allowed.

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. Underwriter must consider the financial strength of a self-employed borrower's business.

OVERDRAFT PROTECTION (FEES)

Overdraft protection (Fees) associated with a pre-arranged link to a savings account or line of credit must also be considered as NSF unless one of the following conditions exist:

- Overdraft protection from a depository account: Occurrences may be excluded if statements for the linked account confirm that (a) the linked account balance at the time of the transfer exceeded the amount of the overdraft transfer, (b) the linked account's balance did not report as zero or negative at any point during the statement period of the transfer, and (c)

The power of yes.

the linked account did not itself receive overdraft protection proceeds during the statement period of the transfer.

- Overdraft protection from a line of credit: Occurrences may be excluded if statements for the linked account confirm that (a) the line's credit limit was not exceeded during the statement period of the transfer and (b) a payment amount which equals or exceeds the sum of all overdraft protection occurrences analyzed in the statement period is made within 30 days after the statement close date.

PERSONAL BANK STATEMENT DOCUMENTATION REQUIREMENTS

- 12 or 24 months complete personal bank statements from the same account. Online bank statements are acceptable if they clearly identify the account holder and the URL associated with the financial institution.
- Multiple bank accounts may be used; however, only personal, non-business accounts may be used.
- Verification of the borrowers' business required. Standard 3rd party verification applies.
- Income must be disclosed on the Initial signed 1003.
- If the bank statements provided reflect payments being made on obligations not listed on the credit report additional information must be obtained to determine if the liability should be included in the borrower's debt-to-income ratio.
 - If the obligation does not belong to the borrower, supporting documentation is required.
 - If the borrower is the obligor on the debt, an account statement and pay history should be obtained to review the account for acceptability. The payment must be included in the debt ratio.

PERSONAL BANK STATEMENT INCOME CALCULATION

- The lower of the Personal Bank Statement Average or the 1003 Initial Disclosed Income must be used as qualifying income.
- 100% of stable and generally predictable deposits are used for income and averaged over 12 or 24 months (corresponding to the number of bank statements provided (12 or 24)).
- Unusual deposits must be documented. The underwriter will determine what is considered unusual based upon the review of the loan file.
- Transfers between personal accounts should be excluded.
- Transfers from a business account into a personal account are acceptable.
- Any deposits from income derived from a source other than the self-employed business may not be included in the bank statement average.

BUSINESS BANK STATEMENT DOCUMENTATION REQUIREMENTS

- 12 or 24 months complete business bank statements from the same account.
- Cannot use more than two accounts per business.
- Borrower must own at least 25% of the business

The power of yes.

- Online bank statements are acceptable if they clearly identify the account holder and the URL associated with the financial institution.
- Business bank accounts, personal bank accounts addressed to a DBA, or personal accounts with evidence of business expenses may be used.
- Income must be disclosed on the Initial signed 1003.
- Verification borrower is 25% or more ownership of the business required. Standard 3rd party verification of business requirements applies.
- Business income and expenses must be documented using the methods below, in this order:
 - 1) Standard Expense Ratio:
 - A standard business ratio of 50% may be applied, and if loan qualifies applying such ratio, additional supporting documentation is not needed.
 - Ratios less than 50% would require a third-party prepared Business Expense Letter or P&L Statement.
 - If the underwriter believes the related industry has an expense ratio that is materially higher than 50%, the underwriter may require additional documentation at their discretion to support such-expense ratio.
 - 2) Business Expense Letter:
 - An expense letter specifying business industry and expenses as a percent of the gross annual sales/revenue, prepared and signed by either a CPA or tax preparer or enrolled tax agent. The preparer must have a currently active license or status at IRS portals:
 - <https://irs.treasury.gov/rpo/rpo.jsf>
 - <https://www.irs.gov/tax-professionals/ptin-information-and-the-freedom-of-information-act>
 - 3) P&L statement – must be certified by a CPA, licensed tax preparer or enrolled tax agent - covering the same period as the bank statements. CPA, Tax Preparer or Enrolled Agent must have a currently active license or status at IRS portals:
 - <https://irs.treasury.gov/rpo/rpo.jsf>
 - <https://www.irs.gov/tax-professionals/ptin-information-and-the-freedom-of-information-act>
 - The expenses in the P&L statement must be itemized and reasonable for the nature of the business.
 - The total of eligible deposits in the business bank accounts must support the 12/24-month P&L by being no less than 10% below the P&L Gross Revenue (P&L top line). If the deposits equal 90% or more of Gross Revenue, the P&L is deemed validated.
 - Borrower will receive credit for the deposits equal to ownership percentage of the company:
Example - if the borrower owns 100% of the company, then 100% of the deposits can be contributed to the borrower. If the borrower owns 25% of the company, only 25% of the deposits may be credited to the borrower.

BUSINESS BANK STATEMENT INCOME CALCULATION

- The lower of the income as described above or the 1003 Initial Disclosed Income must be used as qualifying income.

The power of yes.

- Transfers from other accounts and wire transfers must be documented or excluded from the calculation.
- Income documented separately but co-mingled must be backed out of deposits.
- Statements should show a trend of ending balances that are stable or increasing over time. Decreasing or negative ending balances must be explained.

6.6.9 PROFIT AND LOSS STATEMENT PROGRAMS

P&L FOR LAST 12 MONTHS

- Licensed CPA, licensed Tax Preparer or Enrolled Tax Agent prepared certified letter to provide P&L covering the last 12 months period.
- The CPA, Tax Preparer or Enrolled Agent certify that they have prepared the borrower's most recent tax return.
- CPA, Tax Preparer or Enrolled Agent must have currently active license or status at IRS portals:
 - <https://irs.treasury.gov/rpo/rpo.jsf>
 - <https://www.irs.gov/tax-professionals/ptin-information-and-the-freedom-of-information-act>
- No bank statements will be required.
- Income is calculated based on the lower of the net income indicated on the P&L statement or the 1003.
- The business needs to have existed for at least the last two years OR if the borrower changed company name in the last 2 years, A&D must receive evidence of the previous business existence within the same line of business within the last 5 years.
- ADM will allow combined P&L from 2 separate companies.
- Borrower must own at least 25% of the business, with using pro-rated portion of qualifying income.
- Expenses:
 - Need to make sense for the type of business, and underwriter may ask for additional documentation at their discretion.
 - The P&L must have the expenses itemized.
- If the borrower owns multiple businesses, A&D will require multiple P&L statements.

P&L FOR LAST 24 MONTHS

- Licensed CPA, licensed Tax Preparer or Enrolled Tax Agent prepared certified letter to provide P&L covering the last 24 months period.
- The CPA, Tax Preparer or Enrolled Agent certify that they have prepared the borrower's most recent tax return.

The power of yes.

- CPA, Tax Preparer or Enrolled Agent must have currently active license or status at IRS portals:
 - <https://irs.treasury.gov/rpo/rpo.jsf>
 - <https://www.irs.gov/tax-professionals/ptin-information-and-the-freedom-of-information-act>
- No bank statements will be required.
- The business needs to have existed for at least the last two years.
- ADM will allow combined P&L from 2 separate companies.
- Borrower must own at least 25% of the business, with using pro-rated portion of qualifying income.
 - Expenses:
 - Need to make sense for the type of business, and underwriter may ask for additional documentation at their discretion.
 - The P&L must have the expenses itemized.
 - Underwriter reserves the right to evaluate declining income and deem it acceptable or not based on other loan characteristics.
 - If the borrower owns multiple businesses, A&D will require multiple P&L statements.

6.6.10 ASSET UTILIZATION

Asset Utilization may be used to determine qualifying income. See the applicable A&D Product Matrix for credit score and LTV restrictions.

Qualified Assets can be comprised of stocks, bonds, mutual funds, vested amount of retirement accounts and bank accounts. If a portion of the qualified assets are being used for down payment, closing costs, or reserves, those amounts must be excluded from the balance before analyzing a portfolio for income determination. Funds from foreign accounts in a verifiable financial institution along with translation and proper currency conversion rate are acceptable. Business assets are not permitted.

The following assets are considered Qualified Assets and can be utilized to calculate income:

- 100% of checking, savings, and money market accounts
- 90% of the remaining value of public traded stocks & bonds
- 70% of retirement assets
- 6-month seasoning of assets required
- Proceeds from cash-out excluded from Qualifying assets

The income calculation is as follows:

Monthly Income = Net Qualified Assets / 100 Months*

*100 months used to assume a standard rate of return and income received for 5 years

Borrowers must have the lesser of (a) 1.5 times the loan balance or (b) \$1mm in Qualified Assets, both of

The power of yes.

which must be net of down payment, loan costs and required reserves to qualify. Exceptions on minimum qualifying assets may be applied on a case-by-case basis with compensating factors if assets used as supporting income.

6.6.11 RENTAL INCOME

Rental income can be used for qualifying. The following requirements apply:

- Rental income must be disclosed on the loan application
- Rental income from a 1-unit primary residence or second homes may not be used
- Required forms:
 - Single Family Comparable Rent Schedule (FNMA Form 1007) for the subject property
 - 1-4 Family Rider Assignment of Rents for all investment properties (FNMA Form 3170)

Note: If rental income from the subject property is not being used to qualify, the gross monthly rent must still be documented with appraisal forms 1007 for lender reporting purposes.

The treatment of the monthly qualifying rental income or loss in the total debt-to-income ratio varies based on occupancy of the property. If the property is a primary residence, the following applies:

- The monthly qualifying rental income must be added to the borrower's total monthly income (income is not netted against the PITIA); and
- The full PITIA must be included in the borrower's total monthly obligations when calculating the DTI. If the rental income or loss relates to a property other than the borrower's primary residence, the following calculations apply:
 - If the monthly qualifying rental income 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.

CALCULATING GROSS RENTAL INCOME FROM THE SUBJECT PROPERTY

Rental income from the subject property owned prior to loan application should be calculated using the borrower's federal income tax returns for the most recent 2-year period (Cash Flow Analysis of Schedule E). Income should be averaged. Net rental losses should be included in ratios as a liability.

For properties owned for less than 2 years, rental income should be calculated using the lesser of:

- 75% of the current lease; or
- Cash flow analysis of the Schedule E from the most recent year's federal income tax return (if applicable)

Rental income from a new property being acquired through a purchase transaction can be used to qualify, using the lesser of:

- 75% of the current lease (evidence of deposit must be obtained); or
- 75% of the appraiser's opinion of rent on appraisal form 1007

If no lease exists and rental income is calculated using only the appraiser's opinion of rent, an additional 3 months PITIA reserves is required.

RENTAL INCOME FROM OTHER REAL ESTATE OWNED

Rental income from another property owned prior to loan application should be calculated using the borrower's federal income tax returns for the most recent period (Cash Flow Analysis of Schedule E). Income should be averaged. Net rental losses should be included in ratios as a liability.

For properties owned for less than 2 years, rental income should be calculated using the lesser of:

- 75% of the current lease minus the full PITIA; or
- Cash flow analysis of the Schedule E from the most recent year's federal income tax return (if applicable)

6.6.12 VENEZUELA SPECIFIC

Income derived from business activity or employment in Venezuela, (regardless of borrowers' citizenship origin or legal status) is not eligible for qualification. Eligible products are:

- DSCR - Purchase/Rate-Term loans will be limited to 60% maximum LTV for Foreign National Transactions
- DSCR - Cash-Out will be limited to 55% for Foreign National Transactions

6.6.13 DEBT-SERVICE COVERAGE RATIO (DSCR)

The DSCR calculation is as follows:

Debt-Service Coverage Ratio = Gross Income / Proposed PITIA

To calculate gross income, if the executed lease agreement reflects a higher monthly rent compared to the 1007, it may be used in the calculation as follows:

- If the rent amount on the lease agreement exceeds the rents amount on the 1007 by no more than 15%, lease amount may be used.
- If the amount on the lease agreement exceeds the rent amount on 1007 by more than 15%, using the lease will require evidence of receipt of the higher lease amount for the 3 most recent, consecutive months. If such evidence is unavailable, use the market-based rent from the 1007.
- If there is no current lease, the 1007 value will be used.

6.6.14 REDUCED DOCUMENTATION FOR A SECONDARY BUSINESS

Business tax returns, associated schedules, and profit and loss statements may be waived when all of the following requirements are met:

The power of yes.

- Income/loss referenced on personal tax returns is generated from a secondary business that is not the borrower's primary income source; and
- Income/loss from each separate business is $\leq 10\%$ of qualifying income for the transaction; and
- All losses are subtracted from the borrower's qualifying income.

If income from a business is used to qualify the borrower, or if business expenses are added back to income or a loss, then business tax returns, associated schedules, and profit and loss statements must be obtained. Discretion may be used whether or not to obtain all documentation for self-employed earnings when the secondary business may have a significant impact on the loan.

6.6.15 CASH FLOW ANALYSIS

A written evaluation must be prepared of the analysis of a self-employed borrower's personal income, including the business income or loss, reported on the borrower's federal income tax returns. A copy of the written analysis must be included in the loan file.

6.7 QUALIFYING RATIOS

Refer to the Program Matrix for specific qualifying ratios per loan program.

Back-End DTI	Super Prime, Prime / Foreign National
Debt Ratio	50% / 43%

- All programs will be qualified at the greater of the fully indexed rate or the note rate.
- Interest Only: Qualifying Ratios are based on PITIA payment with the principal and interest payments amortized over the scheduled remaining loan term at the time of recast after the interest only period has expired.
- Transactions resulting in significant payment shock should always be considered by the underwriter. The borrower's income must clearly support the borrower's ability to make the higher monthly payment. It is at the underwriter's discretion to require additional verification of assets or a larger down payment as a compensating factor for a loan with high payment shock.
- For other properties owned, documentation to confirm the amount and/or presence or absence of liability for P&I, taxes, insurance, HOA dues, lease payments or other property-related expenses must be provided.

6.7.1 RESIDUAL INCOME

All loans must meet the residual income requirements below.

- Residual income calculation must be calculated on each loan, except on loans that fall under business purpose lending.
- Residual income equals Gross Monthly Qualifying Income less the Monthly Debt obligation.
 - \$2,000 for Super Prime
 - \$1,500 for Prime

6.7.2 CREDIT TYPES FOR QUALIFYING RATIOS

Revolving Charges/Lines of Credit

If the credit report does not show a required minimum payment amount and there is no supplemental documentation to support a payment of less than 5%, the underwriter must use the greater of \$10 or 5% of the outstanding balance as the borrower's recurring monthly debt obligation.

Installment Debt

All installment debt that is not secured by a financial asset – including student loans, automobile loans and home equity loans – must be considered part of the borrower's recurring monthly debt obligations if there are more than 10 monthly payments remaining.

Payoff of or Paydown of Debt

Payoff or paydown of debt solely to qualify must be carefully evaluated and considered in the overall loan analysis. The borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification. As a rule of thumb:

- Installment loans that are being paid off or paid down to 10 or fewer remaining monthly payments should generally not be included in the borrower's long-term debt.
- If a revolving account is to be paid off and closed, a monthly payment on the current outstanding balance may not need to be included in the borrower's long-term debt, i.e., not included in the DTI ratio.

30-day Charge Accounts

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

Student Loans

For all student loans, whether deferred, in forbearance, or in repayment, a monthly payment must be included in qualifying. Copies of the borrower's payment letters or forbearance agreements must be provided so that a monthly payment amount can be determined. The monthly payment to be used is the greater of:

- 1% of the outstanding balance, or
- The actual documented payment.
- If the actual documented payment is less than 1% of the outstanding balance and will fully amortize the loan with no payment adjustments, the lower amortizing payment may be used in qualifying.
- If the borrower is on an income-driven payment plan, the lender may obtain student loan documentation to verify the actual monthly payment is \$0. The lender may then qualify the borrower with a \$0 payment.

Auto Lease Payments

Payment must be included in qualifying DTI unless:

The power of yes.

- the account in question does not have a history of delinquency, and
- the auto lease payments are paid by another party other than the borrower or out of a business account (i.e. such as 12 months of canceled company checks).

Alimony, Child Support and Maintenance Payments

Payments must be included as a liability.

REO Properties Owned by Business and Paid from Business Accounts

Payment must be excluded as a liability.

6.7.3 BUSINESS DEBT

Business debt appearing on the borrower's individual credit report will be included in the debt calculation unless the debt can be verified as a business expense and independent of the borrower's personal obligation.

Documentation Requirements

- Six (6) months canceled checks; or
- Automatic drafts from the business account
- Business debt being excluded from the monthly obligation must have a paid-on time payment history.

6.8 ASSETS

Assets to be used for down payment, closing costs, debt payoff, and reserves must be seasoned for 60 days or sourced. Documentation must be provided to evidence seasoning and sourcing by any of the following:

- Most recent 2 months' account statements, or most recent quarterly account statement, indicating opening and closing balances, and reflecting a consecutive 60 days of asset verification
- Supporting documentation should be obtained for single, unexplained deposits that exceed 50% of the borrower's gross monthly qualifying income for the loan.
 - Documentation of large deposits is not required on refinance transactions.
- Written Verification of Deposit (VOD), completed by the financial institution
 - Must include the current and average balances for the most recent 2 months
- Large disparities between the current balance and the opening balances will require additional verification or supporting documentation
- Online bank statements are acceptable if they clearly identify the account holder and the URL associated with the financial institution (printouts from the financial institution printed and signed by financial institution officer are acceptable for qualification)
- Account statements must provide all of the following information:
 - Borrower as the account holder
 - Account number

The power of yes.

- Statement date and time-period covered
- Current balance in US dollars
- If the borrower is not the only account holder of the financial account, then a 100% access to funds letter is required from the other account holders.
- For new bank accounts with less than 60 days seasoning, all 'large' or 'unusual' deposits should be verified (even for DSCR where income not qualified)

6.8.1 PURCHASE TRANSACTION

On Purchase transactions - Earnest Money/down payment deposits must be verified with an Escrow letter from a Third party – (i.e.. Title/Escrow company and not related to seller/builder) plus copies of cancelled escrow checks and/or wires along with evidence the funds have cleared the borrower's account.

- Special consideration for purchases with escrow deposits made >12 months from date of application - ADM will accept Escrow deposit confirmation – Escrow letter, from a non-builder related/owned title agent holding the funds for closing.

6.8.2 GIFT FUNDS

- Gift funds are allowed for primary or second home purchase transactions with 75% LTV without any contribution from the borrower. For LTV above 75%, borrower must contribute at least 5% from their own funds. 20% minimum contribution required for investment property. See below matrix:

Minimum Borrower Contribution per Occupancy	<=75% LTV	>75% LTV
Primary Residence and Second Homes	0%	5%
Investment	20%	Not available
DSCR and Foreign National	20%	Not available

- Gift funds are allowed for down payment and closing costs but may not be used to meet reserve requirements.
- Donor must be an immediate family member, future spouse, or domestic partner living with borrower.
- An executed gift letter with the gift amount, donor's name, address, and telephone number and relationship is required.
- Proof of transfer and receipt of funds. Acceptable documentation includes the following:
 - A copy of the donor's check and the borrower's deposit slip, or
 - A copy of the donor's withdrawal slip and the borrower's deposit slip, or
 - A copy of the donor's check to the closing agent, or

The power of yes.

- 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, cashier's check, other official check or wire.

6.8.3 MARKETABLE SECURITIES

- 100% of the vested assets in the form of stocks, bonds and mutual funds may be used for down payment, closing costs, and reserves.
- Borrower ownership of the account and vesting must be documented.
- Most recent retirement account statement covering a minimum 2-month period.
- Evidence of liquidation is required when funds are used for down payment or closing costs.
- Non-vested or restricted stock accounts are not eligible for use as down payment, closing costs or reserves.

6.8.4 RETIREMENT ACCOUNTS

- 60% of the vested value of funds from a retirement account may be used for down payment, closing costs, and reserves.
- Borrower ownership of the account and vesting must be documented.
- The account must allow withdrawal regardless of employment status.
- Most recent retirement account statement covering a minimum 2-month period.
- Evidence of liquidation is required when funds are used for down payment or closing costs.

6.8.5 BUSINESS FUNDS

- Business funds may be used for down payment, closing costs and reserves.
- When assets from business bank statements are used for income qualification, verification that the use of funds will not have a negative impact on the business must be documented with one of the following:
 - Letter from CPA or certified tax preparer.
 - Fannie Mae Cash Flow Analysis Form 1084 or similar cash flow analysis form using the most recent 3 months of business bank statements.
 - The borrower must be at least 25% owner of the business (all other owners of the business must sign a 100% access letter allowing borrower to use those funds).

6.8.6 RESERVES

Reserves must come from the borrower's own funds and there must be verified PITIA reserves remaining after closing, exclusive of closing costs. Net proceeds from cash-out transactions may be used to meet any reserve requirements per program. Beyond the minimum reserve requirements and in an effort to fully document the borrowers' ability to meet their obligations, borrowers should disclose all other liquid assets on the 1003.

- Reserves can be held in a financial institution outside of the US.
- 3 months reserves across the board, except:

The power of yes.

- 12 months reserves for Foreign Nationals.
- Proceeds from a cash out refinance may be used to meet the reserve requirement per the program.
- Reserve calculation is based on the PITIA payment at the time of origination.

6.8.7 VENEZUELA SPECIFIC

A&D will no longer consider any assets located in Venezuela for purposes of qualification or to complete a mortgage loan transaction. Assets/Cash/funds to close plus required reserves must be verified outside of Venezuela.

7 PROPERTY TYPES

7.1 ELIGIBLE PROPERTY TYPES

- Attached / detached Single Family Residence
- Attached / detached PUDs
- Condos
- 2-4 unit properties
- Properties located in a short-term rental community cannot exceed 65% LTV
- Rural properties considered on a case-by-case basis

7.1.1 CONDOMINIUMS

A&D Mortgage accepts condominiums with non-warrantable features, which are not acceptable for GSE purchase, and requires Full or Limited review contingent on the loan's LTV and Occupancy.

Limited review requirements:

- Owner Occupied \leq 75% LTV
- Second Home \leq 70% LTV
- Non-owner Occupied \leq 70% LTV

Full review requirements:

- Owner Occupied $>$ 75% LTV
- Second Home $>$ 70% LTV
- Non-owner Occupied $>$ 70% LTV

LIMITED CONDOMINIUM REVIEW

- The condominium HOA is not party to an active or pending litigation that would disqualify the property from a limited review. Fannie Mae guidelines will be applied to determine the litigation requirements.
- Commercial space in project up to 35%.
- The project, or the subject legal phase, must be 100% complete.

The power of yes.

- Projects cannot be managed and operated as a hotel, motel or resort, or that are primarily transient in nature even though the units are individually owned.
- Projects may not have mandatory upfront or periodic membership fees for the use of recreational amenities, such as country club facilities and golf courses, owned by an outside party (including the developer or builder).
- Projects with non-incidentual business operations owned or operated by the HOA including, but not limited to, a restaurant, spa, or health club are not allowed.
- Projects for supporting or continuing care for seniors or life care facilities.
- Projects in which a single entity (the same individual, investor group, partnership, or corporation) owns more than the following total number of units in the project are considered on a case-by-case basis:
 - projects with 2 to 4 units – 1 unit
 - projects with 5 to 20 units – 2 units
 - projects with 21 or more units – 20%

FULL CONDOMINIUM REVIEW

A condominium may be eligible for a full review if the following parameters are met:

- The project, or the subject legal phase, must be 100% complete.
- At least 25% of the total units in the project or subject legal phase must have been conveyed or be under contract for sale to principal residence or second home purchasers.
- No more than 15% of the total units in a project may be 60 days or more past due on their common expense assessments (also known as HOA dues).
- The budget provides for the funding of replacement reserves for capital expenditures and deferred maintenance that is at least 8% of the budget.
- For projects in which the units are not separately metered for utilities, the underwriter must:
 - determine that having multiple units on a single meter is common and customary in the local market where the project is located, and
 - confirm that the project budget includes adequate funding for utility payments.
- The project must be located on contiguous parcels of land. It is acceptable for a project to be divided by public or private streets.
- The structures within the project must be within a reasonable distance from each other.
- Common elements and facilities, such as recreational facilities and parking, must be consistent with the nature of the project and competitive in the marketplace.
- Unit owners in the project must have the sole ownership interest in, and rights to the use of the project's facilities, common elements, and limited common elements.
- The developer may not retain any ownership interest in any of the facilities related to the project. The amenities and facilities—including parking and recreational facilities—may not be subject to a lease between the unit owners or the HOA and another party. Parking amenities provided under commercial leases or parking permit arrangements with parties unrelated to the developer are acceptable.
- If the project was a gut rehabilitation project, all rehabilitation work involved in a condo conversion must have been completed in a professional manner.
- When an appraisal is obtained, the appraisal of the subject unit must meet all applicable appraisal requirements.

The power of yes.

- Projects may not have mandatory upfront or periodic membership fees for the use of recreational amenities, such as country club facilities and golf courses, owned by an outside party (including the developer or builder).
- Projects cannot be managed and operated as a hotel, motel or resort, or that are primarily transient in nature even though the units are individually owned.
- Projects with covenants, conditions, and restrictions that split ownership of the property or curtail an individual borrower's ability to utilize or occupy the property are not allowed.
- Projects with non-incident business operations owned or operated by the HOA including, but not limited to, a restaurant, spa, or health club are not allowed.
- Projects for supporting or continuing care for seniors or life care facilities.
- Projects in which the HOA or co-op corporation is named as a party to pending litigation, or for which the project sponsor or developer is named as a party to pending litigation that relates to the safety, structural soundness, habitability, or functional use of the project are allowed only in special case-by-case circumstances per Fannie Mae requirements.
- Projects in which a single entity (the same individual, investor group, partnership, or corporation) owns more than the following total number of units in the project are on a case-by-case basis:
 - projects with 2 to 4 units – 1 unit
 - projects with 5 to 20 units – 2 units
 - projects with 21 or more units – 20%
- The total space that is used for nonresidential or commercial purposes may not exceed 35%.

If not covered above, Condominium eligibility is granted on a case-by-case basis.

7.2 INELIGIBLE PROPERTY TYPES

- Properties with condition rating of C5/C6 or fair/poor
- Properties with construction rating of Q6
- Model home leaseback
- Properties with a private transfer covenant
- Gross living area < 500 square feet
- Commercial properties
- Condotels
- Cooperatives
- Geodesic dome homes
- Geothermal homes
- Manufactured housing
- Timeshare or segmented ownership
- Mixed use
- Acreage > 10 acres
- Unique properties
- Assisted Living Facilities
- Working farms, ranches, orchards
- Incomplete properties without a Certificate of Occupancy

8 INSURANCE REQUIREMENTS

Coverage Requirements

Property insurance 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 damages caused by aircraft, vehicle, or explosion.

A&D does not accept property insurance policies that limit or exclude from coverage (in whole or in part) windstorm, hurricane, hail damages, or any other perils that normally are included under an extended coverage endorsement.

Lenders should advise borrowers that they 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.

Additional requirements apply to properties with solar panels that are leased from or owned by a third party under a power purchase agreement or other similar arrangement.

First Mortgages

For a first mortgage secured by a property on which an individually held insurance policy is maintained, A&D requires coverage equal to the lesser of the following:

100% of the insurable value of the improvements, as established by the property insurer; or
the unpaid principal balance of the mortgage, as long as it at least equals the minimum amount—80% of the insurable value of the improvements—required to compensate for damage or loss on a replacement cost basis. If it does not, then coverage that does provide the minimum required amount must be obtained.

Determining the Amount of Required Property Insurance Coverage provides a formula for determining the amount of property insurance coverage generally required for a first mortgage.

The following table describes how to calculate the amount of required property insurance coverage:



The power of yes.

STEP	DESCRIPTION
1	Compare the insurable value of the improvements as established by the property insurer to the unpaid principal balance of the mortgage loan.
1A	If the insurable value of the improvements is less than the unpaid principal balance. The insurable value is the amount of coverage required.
1B	If the unpaid principal balance of the mortgage loan is less than the insurable value of the improvements, go to Step 2.
2	Calculate 80% of the insurable value of the improvements.
2A	If the result of this calculation is equal to or less than the unpaid principal balance of the mortgage, the unpaid principal balance is the amount of coverage required.
2B	If the result of this calculation is greater than the unpaid principal balance of the mortgage, this calculated figure is the amount of coverage required.

Examples:

CATEGORY	PROPERTY A	PROPERTY B	PROPERTY C
Insurable Value	\$90,000	\$100,000	\$100,000
Unpaid Principal Balance	\$95,000	\$90,000	\$75,000
80% Insurable Value	-	\$80,000	\$80,000
Required Coverage	\$90,000	\$90,000	\$80,000
Calculation Method	Step 1A	Step 2A	Step 2B

Deductible Amount

The maximum allowable deductible for insurance covering a property (including common elements in a PUD, condo, or co-op project) securing a first mortgage loan is 5% of the face amount of the policy. When a policy provides for a separate wind-loss deductible (either in the policy itself or in a separate endorsement), that deductible must be no greater than 5% of the face amount of the policy.

Rent Loss Coverage

Rent loss insurance is not required.

Effective Date Requirements for Purchase Transactions

All policies cannot go into effect more than 30 days prior to closing, unless policy has been paid in full.

Acceptable Flood Insurance Policies

Flood insurance should be in the form of the standard policy issued under the NFIP or by a private insurer. The terms and conditions of the flood insurance coverage must be at least equivalent to the terms and conditions of coverage provided under the standard policy of the NFIP for the appropriate property type. The paid receipt and Policy Declaration page of a policy are acceptable evidence of coverage.

Flood Coverage for First Mortgages

The power of yes.

The minimum amount of flood insurance required for most first mortgages secured by one- to four-unit properties, individual PUD units, and certain individual condo units (such as those in detached condos, townhouses, or rowhouses) is the lowest of:

- 100% of the replacement cost of the insurable value of the improvements;
- the flood coverage must be equal to or greater than the amount of the home-owner's insurance
- the maximum insurance available from the NFIP, which is currently \$250,000 per dwelling; or
- the unpaid principal balance of the mortgage.

To determine replacement cost, one of the following must be obtained:

- "Replacement Cost" or "Guaranteed Replacement Cost" verbiage – only acceptable when the total insured value is equal to/greater than the loan amount.
 - Total Insured Value = Dwelling coverage + any extended dwelling/RC coverage included on policy
- Replacement Cost Estimator (RCE) provided by the agent, detailing the estimated cost to rebuild.
- Copy of Replacement Cost Endorsement
- Written confirmation from agent that the coverage is sufficient for full replacement (email from agent, signed statement on agent's letterhead, etc.).
- State Farm policies: "Similar Construction" endorsement verbiage is included on policy.
- USAA: Generic letter stating coverage amount is based on their replacement cost estimator.
- In the event none of the above options are available, a processor cert from an A&D processor confirming the coverage is sufficient for full replacement is acceptable. The date/time, name and contact information of the agent must be included on the cert.

Flood Requirements for Project Developments

If a first mortgage is secured by a unit in an attached condo project and any part of the improvements are in an SFHA, the lender must verify that the HOA maintains a master or blanket policy of flood insurance and provides for premiums to be paid as a common expense.

Flood for Individual condo units:

Stand-alone flood insurance dwelling policies for an attached individual condo unit are not acceptable. A master condo flood insurance policy must be maintained by the HOA, subject to the coverage requirements below. (For detached units, refer to the requirements described in Coverage for First Mortgages above.)

Condo projects:

The lender must verify that the HOA maintains a Residential Condominium Building Association Policy or equivalent private flood insurance coverage for the subject unit's building if it is located in an SFHA. The policy must cover all of the common elements and property (including machinery and equipment that are part of the building), as well as each of the individual units in the building.

The master flood insurance policy must be at least equal to the lower of

- 80% of the replacement cost, or
- the maximum insurance available from NFIP per unit (which is currently \$250,000).

If the condo project master policy meets the minimum coverage requirements above but does not meet the one- to four-unit coverage requirements (described in Coverage for First Mortgages), a supplemental policy may be maintained by the unit owner for the difference.



The power of yes.

The contents coverage for the building should equal 100% of the insurable value of all contents owned in common by association members.

If the condo project has no master flood insurance policy or if the master flood insurance policy does not meet the requirements above, mortgages securing units in that project are not eligible for A&D Mortgage financing.

Flood PUD units (attached and detached):

A&D Mortgage requires the same flood insurance for individual PUD units that is required for other one- to four-unit properties (described in Coverage for First Mortgages above). A stand-alone dwelling policy may be maintained to meet these requirements.

Unacceptable Flood Insurance Policies

ACORD policies are not acceptable to document proof of flood insurance.

8.1 PROPERTY INSURANCE COVERAGE FOR UNITS IN PROJECT DEVELOPMENTS

Coverage for Units in Project Developments

Fannie Mae generally does not require individual insurance policies for a condo unit that secures a first mortgage. However, if the legal documents for the project allow for unit insurance policies for each first mortgage that Fannie Mae purchases or securitizes in a condo or co-op project, Fannie Mae will accept the individual unit insurance policies that meet the requirements in B7-3-06, Evidence of Property Insurance, and Chapter B7-3, Property and Flood Insurance.

Required Coverage for Condo or PUD Projects

This section covers property insurance requirements for insurance policies covering the common elements of condo and PUD projects—the project’s blanket or master policy.

Acceptable policies must provide coverage for either an individual project or multiple affiliated projects. The insurance policy must at a minimum protect against fire and all other hazards that are normally covered by the standard extended coverage endorsement, and all other perils customarily covered for similar types of projects, including those covered by the standard “all risk” or “special form” endorsement. If the policy does not include an “all risk” or “special form” endorsement, Fannie Mae will accept a policy that includes the “broad form” covered causes of loss. The applicable requirements are:

- **PUD Requirements** — The HOA must maintain a property insurance policy, with premiums being paid as a common expense. The policy must cover all of the common elements except for those that are normally excluded from coverage, such as land, foundation, and excavations. Fixtures and building service equipment that are considered part of the common elements, as well as common personal property and supplies, should be covered.

Individual insurance policies are also required for each unit mortgage that Fannie Mae purchases in a PUD project. If the project’s legal documents allow for blanket insurance policies to cover both the individual units and the common elements, Fannie Mae will accept the blanket policies in satisfaction of its insurance requirements for the units.

The power of yes.

- **Condo Requirements** — The lender must review the entire condo project insurance policy to ensure the HOA maintains a master or blanket type of insurance policy, with premiums being paid as a common expense. The insurance requirements vary based on the type of HOA master or blanket insurance policy as follows:
 - “Single Entity” policy: The policy must cover all of the general and limited common elements that are normally included in coverage. These include fixtures, building service equipment, and common personal property and supplies belonging to the HOA. The policy also must cover fixtures, equipment, and replacement of improvements and betterments that have been made inside the individual unit being financed. The amount of coverage must be sufficient to restore the condo unit to its condition prior to a loss claim event. If the unit interior improvements are not included under the terms of this policy type, the borrower is required to have an HO-6 policy with coverage, as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to a loss claim event.
 - “All-In” (sometimes known as an “all-inclusive”) policy: The policy must cover all of the general and limited common elements that are normally included in coverage. These include fixtures, building service equipment, and common personal property and supplies belonging to the HOA. The policy also must cover fixtures, equipment, and replacement of improvements and betterments that have been made inside the individual unit being financed. If the unit interior improvements are not included under the terms of this policy type, the borrower is required to have an HO-6 policy with coverage, as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to a loss claim event.
 - “Bare Walls” policy: This policy typically provides no coverage for the unit interior, which includes fixtures, equipment, and replacement of interior improvements and betterments. As a result, the borrower must obtain an individual HO-6 policy that provides coverage sufficient to repair the condo unit to its condition prior to a loss claim event, as determined by the insurer.
- **Amount of Coverage** – Insurance must cover 100% of the insurable replacement cost of the project improvements, including the individual units in the project. An insurance policy that includes any of the following coverage, either in the policy language or in a specific endorsement to the policy, is acceptable:
 - Guaranteed Replacement Cost—the insurer agrees to replace the insurable property regardless of the cost,
 - Extended Replacement Cost—the insurer agrees to pay more than the property’s insurable replacement cost, or
 - Replacement Cost—the insurer agrees to pay up to 100% of the property’s insurable replacement cost.

Policies with Coinsurance

Policies with coinsurance provisions can create additional risk for an HOA in the event of a loss if the amount of insurance coverage is less than the full insurable value. Master property policies that provide coverage at 100% of the insurable replacement cost of the project improvements, including the individual units, alleviate the risk of a coinsurance penalty being applied in the event of a loss.

The power of yes.

If the policy has a coinsurance clause, inclusion of an Agreed Amount Endorsement or selection of the Agreed Value Option (which waives the requirement for coinsurance) is considered acceptable evidence that the 100% insurable replacement cost requirement has been met. If an Agreed Amount/Agreed Value provision is used, the Agreed Amount must be no less than the estimated replacement cost.

If the policy includes a coinsurance clause, but the coinsurance provision is not waived, the policy is still eligible if evidence acceptable to the lender confirms that the amount of coverage is at least equal to 100% of the insurable replacement cost of the project improvements. This evidence (documentation) must be maintained by the lender.

Maximum Deductible Amounts

For policies covering the common elements in a PUD project and for policies covering condo or co-op projects, the maximum deductible amount must be no greater than 5% of the face amount of the policy.

For losses related to individual units in a co-op project or for individual PUD units that are covered by the blanket policy for the project, the maximum deductible amount related to the individual unit should be no greater than 5% of the replacement cost of the unit. If, however, the policy provides for a wind-loss deductible (either in the policy itself or in a separate endorsement), that deductible must be no greater than 5% of the face amount of the policy.

For blanket insurance policies that cover both the individual units and the common elements, the maximum deductible amount related to the individual unit should be no greater than 5% of the replacement cost of the unit.

Special Endorsements

The requirements for endorsements for condo, co-op, and PUD projects are as follows:

- Inflation Guard Endorsement, when it can be obtained;
- Building Ordinance or Law Endorsement, if the enforcement of any building, zoning, or land-use law would result in loss or damage, increased cost of repairs or reconstruction, or additional demolition and removal costs to rebuild after a covered loss event occurs. The endorsement must provide for contingent liability from the operation of building laws, demolition costs, and increased costs of reconstruction. The endorsement is not required if it is not applicable or the coverage is not obtainable in the insurance market available to the association; and
- Boiler and Machinery/Equipment Breakdown Endorsement, if the project has central heating or cooling. This endorsement should provide for the insurer's minimum liability per accident to at least equal the lesser of \$2 million or the insurable value of the building(s) housing the boiler or machinery. In lieu of obtaining this as an endorsement to the commercial package policy, the project may purchase separate standalone boiler and machinery coverage.

Special Requirements for Condo Projects

Additional insurance policy requirements for condo projects are as follows:

- Any Insurance Trust Agreement is recognized.

The power of yes.

- The insurance is not prejudiced by any acts or omissions of individual unit owners that are not under the control of HOA.
- The policy must be primary, even if a unit owner has other insurance that covers the same loss.

Named Insured

The table below provides the requirements regarding the name of the insured entity.

COVERAGE TYPE	REQUIREMENT FOR NAMED INSURED
Condo projects	The policy must show the HOA as the named insured. If the condo's legal documents permit it, the policy can specify an authorized representative of the HOA, including its insurance trustee, as the named insured. The "loss payable" clause should show the HOA or the insurance trustee as a trustee for each unit owner and the holder of each unit's mortgage loan.
PUD common areas	The policy must show the HOA as the named insured.

9 APPRAISAL REQUIREMENTS

Mortgaged properties must be originated with an appraisal in conformity in form and in substance with the Uniform Standards of Professional Appraisal Practice and that complies with (i) the appraisal requirements of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 and (ii) the Interagency Appraisal and Evaluation Guidelines (75 Federal Register 77450).

Appraisal Integrity

A&D Mortgage relies on appraisers to provide them with thorough, accurate, and objective appraisal reports that result in reliable opinions of market value so A&D can make prudent underwriting decisions. The appraisal is used to judge the property's acceptability for the mortgage loan requested in view of its value and marketability.

A&D Mortgage will pay particular attention and institute extra due diligence for those loans in which the appraised value is believed to be excessive or when the value of the property has experienced significant appreciation in a short time period since the prior sale. A&D Mortgage believes that one of the best ways to reduce the risk associated with excessive values or rapid appreciation is by receiving accurate appraisals from knowledgeable, experienced appraisers.

If A&D Mortgage has concerns with any aspect of the appraisal that result in questions about the reliability of the opinion of market value, A&D Mortgage reserves the right to reject the appraised value.

In addition to the following, refer to Fannie Mae guidelines for appraisal requirements:

- Property condition rating must be: C1, C2, C3 or C4
- Quality of construction rating: must be: Q1, Q2, Q3, Q4 or Q5
- Appraisals should not include comparable greater than six (6) months old at the time of underwriter review. If comparables are more than 6 months old, an explanation from the appraiser is required.
- Properties with values significantly in excess of the predominant value of the subject property's market area may be ineligible.
- Fannie Mae/Freddie Mac Forms 1004/70, 1025/72, 1073/465 or 2090 must be used.
- Appraisals must be dated within 120 days of the Note date. After a 120-day period, a new

The power of yes.

- appraisal is required (re-certification of value is acceptable).
- When two appraisals are required, the following apply:
 - Appraisals must be completed by two independent companies.
 - The LTV will be determined by the lower of the two appraised values as long as the lower appraisal supports the value conclusion. The final inspection must be for the appraisal with the lower value.
 - The underwriter must review both reports and address any inconsistencies between the two reports and all discrepancies must be reconciled.

9.1 ADDITIONAL REQUIREMENTS FOR NEW CONSTRUCTION

New construction

New construction is defined as the following:

- The Certificate of Occupancy was issued within the last 12 months of the A&D Mortgage note date, OR
- The Homeowners Association has been in control of the developer/builder within the last 6 months, OR
- Developer is a Seller of a subject property.

9.1.1 PRIMARY RESIDENCE, SECOND HOME OR INVESTMENT – NEW CONSTRUCTION

Neighborhood Analysis

- Degree of Development and Growth Rate: Properties designated as "rural" to be considered on a case-by-case basis.
- Trend of Property Values: "Declining" Markets allowed with maximum of 60% LTV
- Supply of Properties in the Subject Neighborhood: Markets in "Over-supply" not allowed
- Price Range and Predominant Price: The appraised value may not exceed the highest value of the Predominant Price Range by more than 10%
- Marketing Time for Properties: "Over 6 months" Not Allowed
- Over-Improvement: The subject property may not be designated as an "over-improvement"

Comparable Sales

- Minimum of 4 closed comparable sales
- All comparable sales must have occurred within the 12 months preceding the appraisal date
- At least 1 closed comparable must have occurred within 120 days of the appraisal date
- All comparable sales must be located within 4 miles of subject
- At least 1 closed comparable sales must be located within 1 mile of subject
- At least 2 closed comparable sales must be located within the same neighborhood as the subject

Property Condition

- Eligible Property Condition Ratings: C1, C2, C3, C4
- Eligible Quality of Construction Ratings: Q1, Q2, Q3, Q4
- Maximum Acceptable Acreage – 5 acres

Zoning

- Properties zoned as agricultural are not eligible

Total Adjustments

- Total net adjustments should be minimal if the comparable is truly similar. Net Adjustments may not exceed 15% of the sales price of the comparable sale and gross adjustments may not exceed 25%.

9.1.2 New Construction Limitations by Property Type:

Occupancy	Property Type	Max LTV Florida	Max LTV Other States
Primary Residence or Second Home	PUD	70%	75%
	Condo	65%	70%
Investment Property	PUD	65%	70%
	Condo	60%	65%

No limitations on 1-4 residential properties without community.

9.2 APPRAISAL REVIEW REQUIREMENTS:

9.2.1 The following transactions require a 2nd full appraisal:

1. Approved loan amount exceptions (when exceeding the max loan amount available per the matrix)
2. Loan amounts > \$1,500,000

9.2.2 Secondary Valuation Product required for every loan.

Secondary valuation waterfall:

1. If a loan had a second full appraisal, then lower of the 2 appraisal values will be used.
2. If only one original appraisal and with a CU score of 2.5 or less, use the original value. If CU score is above 2.5, then see below.

The power of yes.

3. If only one original appraisal and with a CU score above 2.5 or when such score is unavailable, then a CDA will be ordered. If the CDA value is below the original value by 10% or less, than the original value would be used. If the CDA value is below the original value by more than 10%, than the CDA value may be used or a second appraisal will be ordered.

9.2.3 Appraisal Reconsideration of Value

To mitigate the risk of inflated appraised value, a reconsideration of value will only be considered on a case-by case basis with strong supporting documentation. The following steps must be taken to request a reconsideration of appraised value:

1. Requestor completes the Appraisal Reconsideration form in its entirety
 - a. The section regarding the facts must be completed.
 - b. Additional comparables the appraiser should consider must be provided.
 - c. The form will be submitted once – A&D will not review multiple requests for the same property.
2. The completed form is submitted to the respective Underwriter.
3. The request will be reviewed by the Underwriter and may be escalated to the Underwriting Manager and a decision will be made if a reconsideration of value will be presented to the AMC/appraiser.
4. If a reconsideration of value is received from the appraiser, the Underwriter or Underwriting Manager must review the updated appraisal to determine if the new value may be used.
 - If not signed by either the Underwriter or Underwriting Manager, the updated value cannot be used.

9.3 TRANSFER OF APPRAISAL TO A&D MORTGAGE

A&D will accept transfer of 1 appraisal per loan. For acceptable appraisal transfer transactions, the appraiser may not be on any A&D Mortgage ineligible list including but not limited to: FHLMC Exclusionary List or FNMA Ineligible List. The Appraisal Transfer Letter must be executed by the lender that ordered the appraisal and must be signed by an authorized officer of the company. Appraisal Transfer Letters signed by Loan officer(s), Loan Processor(s), etc. will not be acceptable.

9.3.1 Appraisal Transfer Letter Must Include the Following Language:

- Provide on the lender's letterhead.
- Current date.
- Borrower name.
- Property address.
- A statement transferring all rights of the appraisal to A&D.
- The "Transfer Letter" is to include the following statement:
- (Transferring Lender's Name) certifies that this appraisal was prepared in accordance with and meets all requirements of the Agencies' Appraisal Independence Requirements (AIR) and is in compliance with all Lending regulations.
- The Transfer Letter is to be signed by an employee of the transferring lender that is not in "Production" (i.e., Loan Officers, LO assistants, etc. are not eligible to sign the transfer letter).



The power of yes.

- The transferring lender, appraisal management company (AMC), appraiser selection, ordering policy and process, and the appraiser comply with all FNMA Appraiser Independence Requirements (AIRs), and Dodd Frank, and Consumer Protection Acts.
- The transferring lenders name appears on the appraisal as the transferring lender/client.
- The appraisal transferred is the only appraisal ordered by the lender for this transaction.

9.3.2 Appraisal Transfer Documentation and Requirements:

- Appraisal is to be submitted to A&D Mortgage's ADM system.
- Copy of SSR Report (FNMA/FHLMC Portal Results) MISMO XML format of full appraisal with color photos.
- Appraisal fee will be disclosed on LE.
- If any modifications, corrections or material changes are required of the appraisal, the original appraiser must cooperate. If the appraiser fails to cooperate with any requests, a new appraisal must be obtained.
- The transferred appraisal effective date may not be more than 60 days old at the time of submission and may not be more than 120 days old at the time of note.
- Appraisal Receipt Acknowledgment from the borrower within 3 days of consummation.
- The following are not accepted:
 - 1004D and "subject to"
- The transferred appraisal must be from the transferring lender.
 - An appraisal transferred from one lender to another lender, then to A&D Mortgage is not acceptable.

9.3.3 Appraisal Review Requirements

- The transferred appraisal and transfer letter will be reviewed by A&D Underwriting Manager or higher as a second level review.
- If second level review determines the appraised value is unacceptable, a new appraisal will be required.

10 TITLE AND CLOSING

In addition to the following, refer to Fannie Mae guidelines for requirements related to title, insurance, and mortgage clauses.

10.1 TITLE POLICY FORMS

The title policy must be written on one of the following forms:

- 2006 American Land Title Association (ALTA) standard form
- ALTA form with amendments required by state law in states in which standard ALTA forms are not used or in which the 2006 ALTA forms have not yet been adopted provided that those amendments do not materially impair protection to A&D.

10.1.1 TITLE REQUIREMENTS

The power of yes.

- Amount of Coverage
 - The amount of title insurance coverage must be greater than or equal to the original principal amount of the mortgage.
- Other requirements
 - The title insurance coverage must include an environmental protection lien endorsement (ALTA Endorsement 8.1-06 or equivalent state form provides the required coverage).
 - References are to the Alta 2006 form endorsement, but state forms may be used in states in which standard ALTA forms of coverage are not used in which the 2006 Alta forms have not yet been adopted. However, if these forms are used, A&D must ensure that those amendments do not materially impair protection to A&D. As an alternative to endorsements, the requisite protections may be incorporated into the policy.
 - Title policies may not include the creditor's rights exclusion language that ALTA adopted in 1990.
- Applicable Endorsements
 - Different property types (i.e. condos or PUDS) as well as different mortgage types may require additional title policy endorsements. A&D's lien must be protected any endorsement that may be necessary to provide that protection.
- Errors and Omission Insurance
 - The title company E&O insurance must equal the loan amount, with a max amount up to \$1,000,000.

10.2 TITLE EXCEPTIONS

The title to the subject property must be good, marketable and released of all encumbrances and prior liens. A&D will not fund a mortgage secured by a property that has an unacceptable title impediment, including unpair real estate taxes and survey exceptions. If surveys are not required in particular jurisdictions, A&D will require 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.

10.3 VESTING AND OWNERSHIP

Ownership must be fee simple. Acceptable forms of vesting are:

- Individuals
- Joint tenants
- Tenants in Common
- Inter Vivos Revocable Trust
- Limited Liability Company (LLC)
- Limited and General Partnerships
- Corporations

10.3.1 INTER VIVOS REVOCABLE TRUST

Inter Vivos Revocable Trusts are allowed when the requirements outlined below are met.

The power of yes.

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 are establishing the trust. The trust must become effective during the lifetime of the person establishing the trust.

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

The trustee must include either:

- The individual establishing the trust (or at least one of the individuals, if 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 parties establishing the trust must use personal income or assets to 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.

10.3.2 LIMITED LIABILITY COMPANY (LLC)

Vesting in the name of an LLC is acceptable under the Investment Property Program only. Sellers must ensure loans vested in an LLC are solely business-purpose loans for the purchase or refinance of an investment property. The following standards apply:

- Purpose of the LLC is for the ownership and management of real estate.
- Owners (not more than 4) must be individual borrowers and guarantors on the transaction, meet credit requirements and sign a note as members/authorized persons of a company. Owners with less than 25% ownership may be excluded from the qualification process upon execution of a notarized corporate resolution, as evidence they will not be part of the 1003 application.
- Loan must be disclosed to all borrowers.

The following LLC documentation must be provided:

- Articles of Incorporation.
- Operating Agreement with Ownership Breakdown or Addendum.
- Tax Identification Number (Employer Identification Number).
- Certificate of Good Standing.

10.3.3 CORPORATIONS, LIMITED AND GENERAL PARTNERSHIPS

Vesting in the name of a partnership or corporation is acceptable under any Investment Property program. Sellers must ensure loans vested in a business entity are solely business-purpose loans for the purchase or refinance of an investment property.

The following documentation must be provided:

- Articles of Incorporation.
- Corporate Bylaws, with ownership breakdown or addendum or certificate of shares reflecting total and % of ownership for each owner.
- Tax Identification Number (Employer Identification Number).
- Certificate of Good Standing.

10.3.4 GUARANTY

A personal guaranty is required for loans vested under Corporate Title subject to the following requirements:

- The guarantor must be an individual person and not a business entity.
- The guarantor must be an owner of the business entity.
- The guarantor is subject to the same credit requirements and fraud checks as individual borrowers.

10.3.5 ENTITY IDENTITY REVIEW PROCESS

A&D will review all entity documents to ensure the borrowing entity is duly formed with full authority to conduct real estate transactional and borrowing activity as stated in their organizational documents.

Furthermore, A&D Mortgage will ensure the individual signing on behalf of the borrowing entity has the authority to bind the entity. Confirmation of good standing status must be reviewed on state websites to ensure borrowing counterparties are current on all state taxes and fees. Any entity must be in good standing and provide proper formation.

10.4 POWER OF ATTORNEY

A Power of Attorney allowed under following terms:

- US Citizen or Permanent Residents.
- Primary Residence or Second Home.
- Power of Attorney must be transaction specific and has subject property address.
- Purchase or Rate-Term Refinance transactions.
- Embassy closing is not allowed.
- Title commitment must reflect Power of Attorney on schedule B1.
- Except as otherwise required by applicable law, or unless they are the borrower's relative, none of the following persons connected to the transaction shall sign the security instrument or note as the attorney-in-fact or agent under a power of attorney:

The power of yes.

- the lender;
- any affiliate of the lender;
- any employee of the lender or any other affiliate of the lender;
- the loan originator;
- the employer of the loan originator;
- any employee of the employer of the loan originator;
- the title insurance company providing the title insurance policy or any affiliate of such title insurance company (including, but not limited to, the title agency closing the loan), or any employee of either such title insurance company or any such affiliate; or
- any real estate agent with a financial interest in the transaction or any person affiliated with such real estate agent.

11 INTERESTED PARTY CONTRIBUTIONS

Interested party contributions include funds contributed by the property seller, builder, real estate agent/broker, mortgage lender, or their affiliates, or any other party with an interest in the real estate transaction. Interested party contributions may only be used for closing costs and prepaid expenses, and may never be applied to any portion of the down payment or contributed to the borrower's financial reserve requirements.

Contributions:

- Owner Occupied - LTV > 75%: 4%
- Owner Occupied - LTV ≤ 75%: 6%
- Investment Property - LTV > 70%: 4%
- Investment Property - LTV ≤ 70%: 6%

Seller Concessions:

All seller concessions must be addressed in the sales contract, appraisal and HUD-1. A seller concession is defined as any interested party contribution beyond the stated limits, in the above section, or any amounts not being used for closing costs or prepaid expenses (i.e., funds for repairs not completed prior to closing is a seller concession). If a seller concession is present, both the appraised value and sales price must be reduced by the concession amount for purposes of calculating the LTV.

12 COMPLIANCE

- High Priced Mortgage Loans: Eligible.
- High Cost: Federal, State and Local High Cost Loans are not permitted. Loans that meet the definition of "high cost," "high risk," "covered," "subprime," or any similar designation under state or local law are ineligible.
- Points and Fees: Points and Fees must be within Federal, State and Local High Cost Limits.

12.1 ADDING OR REMOVING A BORROWER

Six Pieces of Information

As soon as all six pieces of information that constitute a complete application are received, the file becomes an application, initial disclosures must be delivered within three business days.

Removing Applicants

The power of yes.

After initial disclosures have been provided to the applicant(s) on the loan application, if an applicant is subsequently removed from the loan application, the following applies:

- If removal is at the applicant's request, prior to submission to Underwriting, the loan application must be closed for the purpose of "Withdrawn by Applicant" and a new loan application started.
- If removal of an applicant is sought due to the applicant's credit profile, as determined by an underwriter, the loan application must be "Denied" and a new application started.

In both instances, new disclosures under the new loan number, excluding the removed applicant, are required.

Adding an Applicant

After initial disclosures have been provided to the applicant(s) on the loan application, if an applicant is subsequently added to the loan application, the following applies:

- It is not necessary to close the current loan application.
- A full set of disclosures must be sent to the new applicant within three days of adding him/her to the loan application.
 - If the new co-applicant is a spouse to an applicant who has already received disclosures, the new disclosures will have both borrowers' names. In order to obtain proper disclosures signed by both parties, either:
 - Issue new full disclosures to the existing applicant and include the spouse for joint eSignatures (requiring both parties to eSign); or
 - Issue a full disclosure package to the spouse only for wet signatures (only the added spouse needs to sign).
 - If the new co-applicant will be a non-spouse co-mortgagor, issue a set of full disclosures to the co-applicant only (re-disclosure to the initial applicant is not necessary).
- Adding an applicant will reset the required waiting periods per TILA/MDIA/TRID.
 - There must be a minimum of seven (7) business days between issuance of the initial Loan Estimate (LE) and consummation of the loan.
 - There must be a minimum of three (3) business days between issuance of the final Closing Disclosure (CD) and consummation of the loan.

12.2 EXCLUSIONARY LIST/OFAC/DIPLOMATIC IMMUNITY

All parties involved on each transaction must be screened through any exclusionary list used by the lender. The lender should apply its exclusionary list policy to any loans originated under these guidelines.

Parties to the transaction must also be cleared through OFAC's SDN List (borrowers, property sellers, employers, banks, etc.). A search of the Specially Designated Nationals and Blocked Persons List may be completed via the U.S. Department of the Treasury website: <https://sanctionssearch.ofac.treas.gov/>

Borrowers from OFAC sanctioned countries are ineligible. Access the link below for a list of sanctioned countries:

<http://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx>

Individuals with diplomatic immunity are not eligible due to the inability to compel payment or seek judgment. Verification the borrower does not have diplomatic immunity can be determined by reviewing the visa, passport, and/or the U.S. Department of State's Diplomatic List at <http://www.state.gov/s/cpr/rls/>.

13 BORROWER SPECIFIC TRANSACTIONS

13.1 U.S. CITIZENS

U.S. Citizens are eligible for financing

13.2 PERMANENT RESIDENT ALIENS

A permanent resident alien is a non-U.S. citizen authorized to live and work in the U.S. on a permanent basis. Permanent resident aliens are eligible for all types of financing.

A&D Mortgage must make a determination of the non-US Citizen's status based upon the circumstance of the individual case, using documentation deemed necessary and acceptable per applicable US requirements.

13.3 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 the following (see matrix details):

- Super Prime
- Prime
- DSCR

13.3.1 VERIFICATION OF RESIDENCY STATUS

The following visa classifications are allowed as Non-Permanent Resident Aliens:

- E-1, E-2, E-3
- H-1
- L-1
- NATO
- O-1
- R-1
- TN (NAFTA)
- DACA



The power of yes.

Following Documents are required:

- Copies of the borrower's passport.
- A valid employment authorization document (EAD) with category on it to confirm visa classification. If the EAD will expire within 6 months of loan application, it is acceptable to obtain a letter from the employer documenting the borrower's continued employment and continued visa renewal sponsorship (employer on the loan application must be the same as on the unexpired visa).
- Acceptable alternative documentation to verify visa classification is an I-797 form (Notice of Action) with valid extension dates and an I-94 form (Arrival/Departure Record). Most recent I-94 is available at <https://i94.cbp.dhs.gov/i94/#/home>

Borrowers unable to provide evidence of lawful residency status in the U.S. are not eligible for financing.

13.3.2 CREDIT REQUIREMENTS

A U.S. credit report is required, when available, for each borrower on the loan using a valid Social Security number. The credit report should provide merged credit information from the 3 major national credit repositories. If no credit score is available, eligible for financing but will be underwritten to a 580 Representative Score. A 2-year housing history is required.

Qualifying U.S. Credit

The Qualifying U.S. Credit designation refers to a non-U.S. citizen borrower who meets Standard Tradelines in the Tradeline Requirements section of this guide. A Qualifying U.S. Credit borrower is eligible for all products and programs available on the applicable A&D Matrix.

Qualifying Foreign Credit

The Qualifying Foreign Credit designation refers to non-U.S. citizen borrowers who do not meet the Standard Tradeline requirements. A Qualifying Foreign Credit borrower may or may not have a U.S. credit report with no credit score, a single score, or a score with insufficient tradelines.

13.3.3 EMPLOYMENT/INCOME REQUIREMENTS

Standard guidelines apply for verifying income and employment of Non-Permanent Resident Aliens.

13.3.4 ASSET VERIFICATION

Non-Permanent Resident Aliens must have 3 months of PITIA reserves for the subject property, all programs.

The seasoning requirement for all funds is 60 calendar days. 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.

MIXED OR OVERSEAS ASSETS



The power of yes.

Will allow overseas business funds into personal accounts. A&D will need a letter from the CPA covering 12 or 24 months (depending on program) explaining where overseas business is from and nature of business.

13.4 FOREIGN NATIONAL

A Foreign National is a non-U.S. citizen authorized to live in the U.S. on a temporary basis but does not meet the definition of a Non-Permanent Resident Alien. Foreign National Borrower qualify under Investment Property - **DSCR program** with foreign national pricing/LTV grid and the Investment Property – Full Doc.

13.4.1 VERIFICATION OF RESIDENCY STATUS

The following visa types are considered Foreign Nationals:

- B-1 and B-2
- F1
- H-2 and H-3
- I
- J-1 and J-2
- O-1 and O-2
- P-1 and P-2

Copies of the borrower's passport and unexpired visa must be obtained. Acceptable alternative documentation to verify visa classification is an I-797 form (Notice of Action) with valid extension dates and an I-94 form (Arrival/Departure Record). Borrowers unable to provide evidence of lawful residency status in the U.S. are not eligible for financing.

VISA WAIVER PROGRAM AND CITIZENS OF CANADA OR BERMUDA

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. Participating countries can be verified through the U.S. Department of State website at <https://travel.state.gov/content/travel/en/us-visas/tourism-visit/visa-waiver-program.html>

Following document required to confirm valid VWP status - Unexpired ESTA Authorization from U.S. Customs Border and Protection <https://esta.cbp.dhs.gov/esta/> , if authorization expires in 60 days from the application date updated authorization required to be provided prior to closing.

Citizens of Canada and Bermuda do not require ESTA.

13.4.2 CREDIT REQUIREMENTS

A U.S. credit report should be obtained for each Foreign National borrower with a valid Social Security number. The credit report should provide merged credit information from the 3 major national credit repositories.

The power of yes.

For borrowers without a valid Social Security number, an Individual Taxpayer Identification Number (ITIN) is also allowed. An ITIN is acceptable if the borrower has the ITIN for purposes of reporting taxes from passive income sources only and is not employed in the U.S. A traditional U.S. credit report is not required for borrowers without a valid SSN.

Foreign National borrowers who do not have a SSN or ITIN may still proceed under the Foreign National Program. All other program requirements still apply.

Qualifying U.S. Credit

The Qualifying U.S. Credit designation refers to non-U.S. citizen borrowers who meet Standard Tradelines. A Qualifying U.S. Credit borrower is eligible for all investment property products and programs reflected on the A&D Investment Property Matrix.

Qualifying Foreign Credit

The Qualifying Foreign Credit designation refers to non-U.S. citizen borrowers who do not meet the Standard Tradeline requirements. A Qualifying Foreign Credit borrower may or may not have a U.S. credit report with no credit score, a single score, or a score with insufficient tradelines.

A&D will accept a bank reference letter, required for all borrowers who provide income or assets for qualification purposes, from a financial institution dated within 90 days of the note date, as specified below:

- The reference letter indicating two years in open, currently active status and cannot have derogatory history.
- The reference letter must be for the borrower, not the borrower's business.

FOREIGN PRIMARY RESIDENCE ADDITIONAL CREDIT REQUIREMENTS

- 3rd party evidence of residence where the borrower lives with translation – for example, but not limited to CPA or tax preparer letter, utility or third-party bill, tax notice, government or verifiable third-party letter specifying borrower primary address – with date of issuance not more than 90 days prior to note date.
- A&D will only include the PITI payment for the borrower's current housing if a payment is included on the 1003. If no payment is indicated, A&D will not require verification or use in the debt-to-income calculation.

13.4.3 EMPLOYMENT/INCOME REQUIREMENTS FOR FOREIGN NATIONAL INVESTMENT FULL DOC PROGRAM

To document income received for salaried Foreign National borrowers under the Investment Property program, the following items must be obtained:

- Letter from employer on company letterhead providing current monthly salary and YTD earnings, OR 2 months' pay stubs with YTD earnings.
- Verification of earnings for the last 2 years (letter from employer or W-2 equivalent).
- Employer to be independently verified (via LexisNexis, D&B International Business Search, Google, or other means of verification).

The power of yes.

- All documents must be translated by a certified translator.
- Foreign National borrowers who have been self-employed for at least 2 years are allowed. The following items must be obtained:
 - Letter from a Foreign CPA providing income for the last 2 years and YTD earnings.
 - Self-employed business or Foreign CPA license are to be independently verified (via LexisNexis, D&B International Business Search, Google, Government or State Issued Document or other means of verification).
- All documents must be translated by a certified translator.
- Maximum DTI for foreign nationals is 43%. Minimum reserves 12 months.
- Independent verification of the existence of the business is required through verbal VOE or similar method. Must verify the business is currently open.

13.4.4 ASSETS & RESERVES

The seasoning requirement for all funds is 60 calendar days.

Assets used for down payment and closing costs can be wired directly to title company or escrow agent and must be OFAC cleared by title agent's or escrow company's bank to be considered assets/funds/cash for closing:

- If the earnest money deposit was made within 12 months of the application date, the funds must be properly seasoned and sourced with 60 days of asset verification to verify the funds were from the borrower along with the escrow deposit letter.
- Special consideration for purchases with escrow deposits made >12 months from date of application - ADM will accept Escrow deposit confirmation – Escrow letter, from a non-builder related/owned title agent holding the funds for closing.
- Business assets acceptable in general, if business bank statements coming from company used for income purposes, accountant's letter must be provided to indicate that the use of funds will not have a negative impact on the business.
 - If an accountant's letter is not available, a Fannie Mae cash flow analysis form 1084 or a similar cash flow analysis form must be provided using the most recent 3 months business bank statements to determine no negative impact to business based on withdrawal of funds.

Foreign National borrowers must have 12 months PITIA reserves for the subject property.

Assets held in foreign accounts are eligible for reserves and cash to close. 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.

VENEZUELA SPECIFIC

Assets located in Venezuelan financial institutions are ineligible for purposes of qualification or to complete a mortgage loan transaction.

Assets/Cash/funds to close plus required reserves must be verified outside of Venezuela.

13.4.5 FOREIGN BORROWERS WITH PRIOR US RESIDENCY

Borrowers with US Citizenship, Permanent Residency applied to a Foreign National DSCR program, who do not reside in US any longer and have active primary residence overseas may qualify under foreign national guidelines. Following requirements will apply:

- Minimum reserves 12 months.
- Verbal Verifications of Employment are not required.
- Eligibility and Pricing Criteria under Foreign National grid.
- If U.S. credit report reflects credit scores for a borrower or co-borrower then Investment Property Matrix Foreign National Pricing/LTV grid should be used, if qualifying score below 680 then worst-case pricing and eligibility criteria used.
- Borrower's attestation letter certifying that they do not reside in the US anymore and live overseas permanently.

13.5 CO-BORROWERS

Co-borrower is often used to describe any borrower other than the first borrower whose name appears on the note. All borrowers are evaluated on their ability to meet credit requirements and underwriting and eligibility standards. All co-borrowers must occupy and take title to the subject property. Co-borrowers may not be an interested party to the transaction. Possible examples include, but are not limited to, property seller, builder, realtor, appraiser (a buyer who also acts as their own buying agent is generally permitted.)

13.5.1 CO-BORROWERS WITH DIFFERENT RESIDENCY

Loans to US Citizen and Permanent Resident borrowers with Non-Permanent Resident Alien co-borrowers will be qualified based on Non-Permanent Resident eligibility criteria.

Loans to US Citizen and Permanent Resident borrowers with Foreign National co-borrowers will be qualified based on Foreign National eligibility criteria.

13.6 NON-OCCUPANT CO-BORROWERS /CO-SIGNERS / GUARANTORS

Non-occupant borrowers are allowed which are owners of the subject property and are obligated to repay a loan on an owner-occupied or second home. Such non-occupant borrowers cannot be the primary income earners and are immediate relatives to one of the occupying borrowers either by family relation or marriage.

13.7 MULTIPLE FINANCED PROPERTIES AND A&D EXPOSURE

A&D Mortgage exposure may not exceed \$5M aggregate with a maximum of 5 loans for each individual borrower. Exceptions to this policy will be reviewed on a case-by-case basis.

When the subject property is a primary residence, second home or investment property, there are no limitations on the number of other properties the borrower(s) may currently have financed.



The power of yes.

13.8 INELIGIBLE BORROWERS

The following borrowers are not eligible:

- Borrowers with diplomatic immunity or otherwise excluded from U.S. jurisdiction.
- Residents of any country not permitted to transact business with US companies are ineligible (as determined by any U.S. government authority).
- Irrevocable Trusts or Land Trusts.
- Borrowers less than 18 years old.