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JUMBO RED UNDERWRITING GUIDELINES

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A&D Mortgage (A&D) is committed to the policy of originating sound mortgage loans of investment quality. Investment quality is determined by evaluating the three components of the underwriting analysis.

Credit: An acceptable credit reputation is established by a history that, when viewed as a whole, evidences a borrower's willingness to make timely payments on obligations.

Capacity: The borrower must have the ability to repay the mortgage in the amount and terms stated. Adequate capacity is established by documenting stable monthly income and/or assets along with other information about how the borrower paid obligations in the past that, when viewed as a whole, evidences a borrower's ability to make periodic payments approximating the amount of the proposed monthly debt payment. Regardless of the level of the borrower's previous monthly payments, the file must contain evidence of the borrower's ability to meet all new obligations after the new mortgage is made. When the borrower's obligations will increase significantly with the mortgage, the Transmittal Summary (1008) must contain an explanation as to how the borrower will meet the higher payment.

Collateral: The collateral must meet minimum property requirements as specified herein. Each property must also have an established value to support the loan transaction. This value will help in determining the risk associated with the loan transaction.

Each of the above components must be found to be acceptable. 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.

1. GENERAL REQUIREMENTS

1.1. AGE OF DOCUMENTS

Follow DU or LPA Findings Report and Fannie Mae/Freddie Mac Seller Guide.

1.2. AUTOMATED UNDERWRITING SYSTEMS (AUS)

All loans are required to be scored through Desktop Underwriter (DU)/Loan Product Advisor (LPA). The term “AUS” will be used throughout this section and refers to “automated underwriting systems.” When this term is used, it references issues concerning DU/LPA, unless otherwise indicated. Adherence to the AUS findings is acceptable in all cases except the following:

- Program Guideline overlays require additional documentation which must be applied.
- Specific details of the transaction are not addressed in the AUS findings (i.e., trailing spouse income).

A&D requires that all loan transactions eligible for automated underwriting be submitted through Fannie Mae’s Desktop Underwriter (DU) or Freddie Mac’s Loan Product Advisor (LPA). Loans must be fully underwritten to Fannie Mae or Freddie Mac.

- AUS findings of Approve/Ineligible are acceptable due to loan amount only.
- The maximum Debt-to-Income ratio is determined by DU/LPA, but not to exceed 50%.

2. BORROWER ELIGIBILITY

2.1. ELIGIBLE BORROWERS

- US Citizens
- Permanent Resident with a valid Social Security number
- Inter vivos (Revocable) Trusts

2.2. INELIGIBLE BORROWERS

The following borrower types are ineligible:

- A non-U.S. citizen who has no lawful residency status in the U.S. such as foreign nationals.
- Non-Permanent Resident Alien (Including DACA)
- Individuals without a social security number
- Individuals with diplomatic immunity or other exclusions from U.S. jurisdiction.
- Loans to borrowers if title is taken in the name of a corporation, partnership, LLC or a non-revocable trust or life estate.
- Title held as a land trust, a bank trust, a real estate trust, Qualified Personal Residence trust or a blind trust
- Applicants living or working in a foreign country are ineligible for financing.
- Applicants Involved in Federally Prohibited Activities.

3. CREDIT ELIGIBILITY

3.1. CREDIT REQUIREMENTS

Follow DU/LPA requirements for mortgage history.

All borrowers must have at least two valid credit score to be eligible. The credit report must access all three major credit bureaus to ensure valid repository scores are generated. Qualifying FICO – the representative score for each borrower is the median of the three scores (or lessor of two, if only two scores are returned); the representative score for the loan is that of the borrower with the lowest representative score.

A credit inquiry letter is required for inquiries within 90 days or inquiries reported on undisclosed debt monitoring. Any new debt will need to be added to the debt obligations for qualifying purposes.

Standalone VOM (Verification of Mortgage) is not acceptable unless it is from a financial institution.

3.2. MAXIMUM NUMBER OF FINANCED PROPERTIES

Maximum allowed per FNMA guidelines.

3.3. EXCEPTIONS

A&D Mortgage will not grant any exceptions on Prime Jumbo

3.4. DEROGATORY EVENT SEASONING

- 7-year seasoning required on all derogatory events required (bankruptcy, foreclosure, short sale, deed-in-lieu, etc.).
- Extenuating Circumstances for Chapter 7, 11 or 13, Short Sale, Deed in Lieu, Pre-Foreclosure:
 - Loans < \$1,000,000 - 4 years since discharge or dismissal date
 - Loans > \$1,000,000 - 7 years since discharge or dismissal date
- Use of extenuating circumstances to reduce waiting period for foreclosure is not allowed.
- Deferment and/or Forbearance to have 6 months on-time payments made after last date of deferment and/or forbearance has ended.

4. EMPLOYMENT AND INCOME

A&D will follow agency guidelines for employment and income (DU or LPA).

Future income will only be accepted from well-established corporations.

5. ASSETS

5.1. ASSET REQUIREMENTS

- Cryptocurrency is ineligible to be used for income or reserves.
- Gift funds sent directly to title cannot be used for reserves. Instead, they must be transferred directly to the borrower's account prior to closing.

5.2. RESERVES

- Loan Amounts $\leq$ \$1.5mm: 6 months
- Loan Amounts $>$ \$1.5mm $\leq$ \$2.0mm: 9 months
- Loan Amounts $>$ \$2mm: 24 months

6. COLLATERAL

6.1. ELIGIBLE PROPERTY TYPES

- SFR
- PUD
- Warrantable Condo
- 2 units
- Acreage less than 20 acres
- Agricultural zoning with the following restrictions:
 - The land is not suited for agriculture/farming
 - The zoning specifically permits residential development.
 - The zoning allows for one home on one acre or less with sewer services or the minimum lot size needed for on-lot sewage disposal.

6.2. INELIGIBLE PROPERTY TYPES

A&D will not allow a loan for a property with any of the following ineligible property characteristics:

- 3-4 units
- Cooperatives (Co-ops)
- Investment securities / Properties with income producing attributes
- Manufactured housing or mobile home (built on a permanent chassis)
- Multi-family dwelling containing more than 2 units
- Property used for commercial or industrial purposes
- Residential property with an additional permanently affixed manufactured home on property
- Timeshare unit
- Undeveloped lots / unimproved land
- Agricultural property (working farm, ranch, hobby farm, orchard, etc.) if income producing regardless of acreage
- Unique properties (including those properties that may have marketability issue because of their uniqueness)
- Properties with a condition rating on the appraisal of C5 or C6
- Condotels
- Properties not located within the United States of America and the District of Columbia ("U.S.") (not including any territory of the U.S. such as Guam, Puerto Rico or the U.S. Virgin Islands)
- Any property located in lava zones one (1) or two (2) on the island of Hawaii
- Non-Warranted condominiums
- Projects Pending or Currently in Litigation
- Properties on Indian Reservations
- Properties with acreage greater than twenty (20) (20 – 50 maybe be considered on case-by-case basis) acres

- Log homes / Geothermal homes
- Timeshares
- Properties held as a leasehold

6.3. CONDOMINIUMS

A&D will underwrite loans on condominiums in accordance with published Agency and Government guidelines.

6.4. PUD PROJECT

- As per Agency Guidelines

6.5. NEW CONSTRUCTION

- As per Agency Guidelines

6.6. MANUFACTURED HOUSING

A&D does not allow manufactured homes.

6.7. APPRAISAL REVIEW/ SECOND APPRAISAL

Review requirements:

- Full appraisal with interior and exterior inspection:
 - Uniform Residential Appraisal Report (Form 1004)
 - Individual Condominium Unit Appraisal Report (Form 1073)
 - Two-to-Four Unit Residential Appraisal Report (Form 1025)
- Property Inspection Waivers (PIWs) are not permitted.
- Appraisals expire 120 days after the effective date.

Secondary valuation

Each appraisal require:

- CDA supporting appraised value (if CDA Recommends Field Review then defaults to field review); or
- 2-4 Units defaults to a field review

If CDA value is

- Indeterminate; or
- value variance is more than 10% below appraised value up to 75 CLTV; or
- value variance is more than or equal to 5% below appraised value for CLTV 75.01-80%,

field review required.

If field review does not support the value of an appraisal, then we cannot proceed with the loan due to ineligible collateral.

Second Appraisal

Second appraisal is required with loan amount greater than \$2,000,000.

If the opinion of value is different than the original appraisal, the lowest of the original appraisal, field review, or second appraisal, or sales price (for purchases) is used to calculate the LTV ratios.

Transfer of Appraisal To A&D Mortgage

Appraisal transfer is allowed for 1 appraisal according to Fannie Mae/Freddie Mac guidelines.

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.

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 Mortgage LLC.
- 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 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.

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.

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
 - The section regarding the facts must be completed.
 - Additional comparables the appraiser should consider must be provided.
 - 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.

6.8. STATE SPECIFICS

- Guam, Puerto Rico, US Virgin Islands, Maine ineligible.
- Island of Hawaii lava zones 1-2 ineligible.
- Texas cash out loans are ineligible.
- New York CEMA loans are eligible for Refinance transactions.

7. REPAIR ESCROW HOLDBACK**8. Escrow holdbacks are ineligible. QUALIFIED MORTGAGE/ABILITY TO REPAY****8.1. VERIFICATION SAFE HARBOR / REBUTTABLE PRESUMPTION**

Rebuttable presumption is not allowed. Loans must meet safe harbor via APR at maximum 1.5% spread over APOR.

8.2. HPML

High prices mortgage loans are not allowed.