



The power of yes.

CLOSED-END SECOND LIEN ELIGIBILITY GUIDELINES

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1. INTRODUCTION

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

1.1. LENDING PHILOSOPHY

AD Mortgage LLC (hereafter referred to as AD) 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.

AD's Lending Eligibility Guidelines establish the criteria under which a loan is eligible.

AD 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. AD 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

AD 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. AD 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.

AD's close-end second lien 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 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.

AD 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 AD may choose to fund a loan that does not adhere to the formal requirements of the ATR rule, AD 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: AD 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.

1.5. FRAUD AWARENESS

Fraud can occur with any type of loan. A common definition of fraud is an act of intentional misrepresentation, concealment, or omission of the truth for the purpose of deception or manipulation with the intent of securing something by taking unfair advantage of another. AD Mortgage has a Zero Tolerance Policy on matters relating to fraud or misrepresentation.

1.5.1. CORE MORTGAGE FRAUD SCHEMES

Affinity Fraud

Mechanics: Fraud is coordinated within a trusted group (religious, ethnic, professional, or social group). A trusted insider promotes financing or investment opportunities and recruits participants. Loans are often originated using shared narratives, recycled documentation, or coordinated misrepresentation.

Red flags: Multiple borrowers linked through same employer, agent, or introducer; repeated use of same LO, broker, attorney, or developer; similar income or asset documentation patterns across unrelated files; group investment language; high concentration of loans in one channel or geography tied to one network.

Air Loans

Mechanics: Entire transaction is fictitious. Property, borrower, or both do not exist. Documentation is fully fabricated including appraisal, title, and borrower identity.

Red flags: Property cannot be independently verified; inconsistent address records; appraiser unfamiliar with area; weak or missing chain of title; borrower has no digital footprint; unusually fast and “clean” closings.

Identity Theft

Mechanics: Stolen personal data is used to obtain mortgage credit without the true borrower’s knowledge.

Red flags: Credit profile inconsistent with application history; borrower unaware of application details; mismatched IP/device/location; sudden new credit accounts before application; altered or inconsistent documents.

Straw Borrower

Mechanics: A qualified borrower is used to secure financing for a hidden true beneficiary who cannot qualify or is concealed.

Red flags: Borrower cannot explain property details; third-party down payment; POA involvement; occupancy inconsistencies; lack of decision-making control.

Shotgunning

Mechanics: Multiple loans are secured on same property or borrower simultaneously before lenders can detect overlapping liens.

Red flags: Closings within days; repeated title updates; same property appearing in multiple applications; unusually high leverage; multiple recordings in short period.

1.5.2. VALUATION & APPRAISAL FRAUD

Property Flips

Mechanics: Rapid resale at inflated price with minimal improvements supported by manipulated appraisals or comps.

Red flags: Short ownership (<12 months); minimal renovation; repeated related-party sales; non-arm's-length history; comp overlap with subject property.

Developer-initiated Value Inflation

Mechanics: Developer influences pricing through incentives, controlled sales, phased pricing, or internal buyer networks.

Red flags: Limited external sales; heavy concessions not reflected in price; rapid appreciation without demand; related-party buyers; comps driven by developer pipeline.

Comp Manipulation

Mechanics: Selective or engineered comparable sales used to justify inflated valuation.

Red flags: Same developer comps; outdated or irrelevant comps; geographic mismatch; repeated comp reuse; lack of true market transactions.

Appraisal Conditioning

Mechanics: Direct or indirect pressure on appraisers or AMC to influence valuation outcomes.

Red flags: Appraiser repeatedly assigned by same broker; value changes after revisions without market support; unusual communication patterns.

1.5.3. DEVELOPER & CONDO FRAUD

Builder Bailout

Mechanics: Developer offloads inventory using incentives or inflated values to resolve financial distress.

Red flags: High unsold inventory; bulk investor sales; hidden concessions; end-user absence; sales spike near financial deadlines.

Condo Conversion Bailout

Mechanics: Rental or distressed property converted to condos with inflated unit pricing.

Red flags: Recent conversion; weak resale history; investor-heavy ownership; unstable HOA; clustered sales.

HOA Financial Misrepresentation

Mechanics: HOA reserves, budgets, insurance, or litigation exposure misrepresented to support valuation or eligibility.

Red flags: Low reserves; missing audits; litigation inconsistencies; developer-controlled HOA; insurance gaps.

1.5.4. TRANSACTION STRUCTURING FRAUD

Double Escrows

Mechanics: Sequential closings used to inflate price and obscure true value.

Red flags: Rapid resales; overlapping escrows; same participants; unexplained price jumps.

Purchase Disguised as Refinance

Mechanics: True purchase structured as refinance to avoid purchase scrutiny.

Red flags: Recent title transfer; missing purchase contract; no seasoning; unexplained cash flows.

Cash-Out Purchase Schemes

Mechanics: Equity extracted at closing through inflated price or side agreements.

Red flags: Above-market price; borrower receives funds back; seller credits not disclosed; appraisal equals loan amount.

Seller Financing Abuse

Mechanics: Seller provides financing with non-market terms to mask true price, borrower qualification gaps, or hidden equity arrangements.

Red flags: Related-party seller; unusual loan terms; deferred or interest-only structures; side agreements; price inflation paired with seller note.

1.5.5. OCCUPANCY & INCOME FRAUD

Occupancy Misrepresentation

Mechanics: False declaration of property use to obtain favorable loan terms.

Red flags: Distance from property; inconsistent residency history; rapid post-closing rental; multiple primary residences.

Rental Income Fraud

Mechanics: Fabricated or inflated rental income used for qualification.

Red flags: Rent above market; missing leases; unverifiable payments; related tenants; inconsistent DSCR inputs.

Employment / Income Fabrication

Mechanics: Fake employment or income documents used for qualification.

Red flags: unverifiable employer; fake EIN; CPA letters without audit trail; income spikes pre-application; inconsistent payroll data.

1.5.6. FORECLOSURE & DISTRESSED FRAUD

Foreclosure Bailout

Mechanics: Distressed property sold at inflated value to avoid foreclosure.

Red flags: Pre-foreclosure timing; distressed seller indicators; related-party buyers; inflated pricing.

Foreclosure Rescue

Mechanics: Fraudulent rescue firms take ownership or equity under false promises.

Red flags: rapid deed transfer; lack of legal counsel; unclear agreements; borrower confusion; equity stripping.

Buy and Bail

Mechanics: Borrower defaults on existing loan after obtaining new property financing.

Red flags: Second purchase shortly before default; abandonment patterns; payment cessation after new loan.

Short Sale Fraud

Mechanics: Manipulated short sale through hidden agreements or false hardship claims.

Red flags: undisclosed compensation; related buyers; inconsistent hardship documentation.

1.5.7. ENTITY & OWNERSHIP MANIPULATION

Subject-To Financing

Mechanics: Property transferred while existing mortgage remains without lender consent.

Red flags: title transfer without assumption; unchanged original mortgage; seller still liable; missing lender notification.

Straw Entity / LLC Layering

Mechanics: Entities used to conceal true borrower or obscure ownership.

Red flags: newly formed LLCs; shared registered agents; complex ownership chains; lack of business purpose.

Title Cycling

Mechanics: Rapid transfers between entities to obscure price history or reset valuation.

Red flags: frequent deed transfers; related entities; inconsistent ownership timeline.

1.5.8. SYSTEMIC MARKET MANIPULATION

Broker-Controlled Pricing Loops

Mechanics: Broker network repeatedly circulates properties to inflate pricing benchmarks.

Red flags: same brokers across transactions; repeated appreciation within network; clustered activity.

Interconnected Comp Networks

Mechanics: Artificial comp creation through repeated related-party transactions.

Red flags: recurring buyers/sellers; lack of arms-length sales; localized price inflation clusters.

Market-Wide Value Inflation Campaigns

Mechanics: Coordinated actions by developers, brokers, and investors to raise pricing benchmarks in a micro-market.

Red flags: rapid regional appreciation without fundamentals; synchronized pricing jumps; limited external buyers.

2. GENERAL CLOSED-END SECOND LIEN PROGRAM INFORMATION

2.1. PROGRAMS

AD offers the loan programs below. See the appropriate AD Matrices for additional details and criteria:

- AD Owner Occupied / Second Home

Program	Mortgage History	Min FICO	Credit Event (CE) Seasoning	Tradelines	Residual Income
US Citizens / Permanent Residents / Non-Perm Residents / Alt-Income	0x30x12 and 0x90x24	680	48 months	Standard	\$2,000

- AD Investment Property / DSCR / Foreign National

Program	Mortgage History	Min FICO	Credit Event (CE) Seasoning	Tradelines	Residual Income
US Citizens / Permanent Residents / Non-Perm Residents / Alt-Income / DSCR (No DTI)	0x30x12 and 0x90x24	680	48 months	Standard	\$2,000 / DSCR Not Required
Foreign National	0x30x12 and 0x90x24	680 (No Fico)	48 Months	Not Required	Not Required

Maximum Combined Loan Amount for both first and second liens is \$4,000,000.

2.2. PRODUCTS

See latest applicable AD Matrix.

2.3. LOAN AMOUNTS AND LOAN-TO-VALUES

See latest applicable AD 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)
- 1099 Income

2.5. LOAN AGE

The period between the note date and the AD Mortgage funding date cannot exceed 90 days for correspondent loans. AD 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 AD Matrices for details.

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

Where permitted by applicable laws and regulations on an investment property, a prepayment charge may be assessed in the period between six (6) months and five (5) years following the execution date of the Note. The prepayment charge will be equal to 6 months of interest on the amount of the prepayment that exceeds 20% of the original principal balance. The charge applies to loans that pay off due to sale or refinance, or curtailments that exceed 20% of the original principal balance in each 12-month time period.

DSCR loans require a minimum 1-year prepayment penalty where allowable by state law.

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

The following state restrictions apply:

- Prepayment penalties are not allowed in AK, AR, KS, MI, MN, NM, OH (1-2 units with loan amount less than or equal to 116,356), RI and TX. Prepayment penalty buydown is required.
- Prepayment penalties are not allowed on loans vested to individuals in IL, NJ and VT. Prepayment penalty buydown required or close in LLC (maximum prepayment penalty period is 3 years in IL).
- Maximum prepayment penalty period is 2 years in MS.

- Maximum prepayment penalty period is 3 years in ID and MA.
- Maximum prepayment penalty period is 3 years in DC and MD. The prepayment charge will be equal to 2 months of interest on the amount of the prepayment that exceeds 20% of the original principal balance.
- Virginia and Maryland - Prepayment penalties are not allowed on loan balances less \$75,000.
- Pennsylvania - Prepayment penalties are not allowed on loan balances less than an adjusted value as determined by the Dept of Banking & Securities for 1-2 units. For calendar year 2026 the amount is \$329,411.

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, AD 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.

2.7. 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 AD Mortgage Exception Request Form along with any supporting documentation is required. AD's decision to allow or deny any exception request relates only to whether AD will approve a loan.

2.8. ESCROWS – IMPOUND ACCOUNTS

AD Mortgage does not require escrow funds/impound accounts to be established for all second lien loans originated by AD Mortgage, regardless of whether or not the 1st lender has an escrow account.

Please refer to AD Matrix for LTV restrictions and additional criteria.

Flood Insurance Escrows can never be waived regardless of loan type or program, unless escrowed with a first mortgage loan payment.

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.

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.

Unless otherwise noted, gift funds are acceptable only if a 10% down payment has been made by the borrower from their own resources.

Please refer to AD 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 necessary attachments/addendum 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

- All existing subordinate liens must be satisfied.
- All Solar Panel loans and leases with PACE/HERO financing must be paid off.

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.
- Refinances where the payoff obligation is seller-held financing, including seller carryback notes, owner-financed mortgages or any obligation held by the property's original seller, are not eligible.
- 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 AD 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, AD 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. A rate/term refinance is ineligible when the payoff mortgage was originated, funded, or is held by an immediate or extended family member of the borrower or business partner.

At least one borrower on the new loan must be an owner (on title) of the subject property at the time of the initial application. Exceptions are allowed if:

- the borrower acquired the property through an inheritance or was legally awarded the property (such as through a divorce, separation, or dissolution of a domestic partnership); or
- the property was previously owned by an inter vivos revocable trust and the borrower is the primary beneficiary of the trust.
- the borrower is currently financially obligated on the loan being paid off but not on the title. This includes loans where the property is currently owned by a limited liability corporation (LLC) that is majority owned or controlled by the borrower(s). The LLC is considered majority-owned by the borrower(s) in the following scenarios:
 - Scenario A: The borrower is 50% owner and non-borrower is 50%.
 - The borrower is not the majority owner. Time vested in LLC is not applied to seasoning.
 - Scenario B: The borrower is 51% owner and non-borrower is 49%.
 - The borrower is the majority owner. Time vested in LLC is applied to seasoning.
 - Scenario C: The borrower is 40% owner and non-borrowers are 20%, 20%, and 20% owners.
 - The borrower is the majority owner. Time vested in LLC is applied to seasoning.
 - Scenario D: The borrower is 50% owner and non-borrowers are 25% and 25% owners.
 - The borrower is the majority owner. Time vested in LLC is applied to seasoning.

If Quitclaim Deed with no value conveyed is used as the acquisition method within the last 12 months, maximum CLTV of 65%, unless one of the following applies:

- The mortgage is reporting on the borrower's credit report (credit supplement is not acceptable as a substitute), or
- The mortgage is held in an LLC where the borrower had $\geq 25\%$ ownership at the time the loan was opened per title commitment, or
- The borrower acquired the property through an inheritance or was legally awarded the property (such as through a divorce, separation, or dissolution of a domestic partnership)

The mortgage amount for a Rate/Term refinance is limited to the sum of the following:

- 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 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. Note date to note date is used to calculate the 6 months.

If the subject property was acquired greater than twelve (12) months from note date, the appraised value will be used to determine LTV/CLTV. If the property was acquired less than or equal to twelve (12) months from the note date, the lesser of the current appraised value or purchase price plus documented improvements (if any) will be used to determine LTV/CLTV.

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 \$5,000.

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. A cash-out refinance is ineligible when the payoff mortgage was originated, funded, or is held by an immediate or extended family member of the borrower or business partner.

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

A first mortgage must be at least 6 months old at the time of refinance, as measured by the note date of the existing loan to the note date of the new loan.

Two or more cash-out refinances in the past twelve months are not eligible.

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

- Existing second 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.

Cash-out proceeds on an investment property must be used only for a business purpose. It cannot be used for personal, family or household purposes (e.g. student debt, medical bills, personal credit card pay-off, personal tax lien or judgement payoff and etc.)

CASH-OUT SEASONING AND DETERMINATION OF VALUE

Note date is used for Cash-Out Seasoning calculations.

Cash-Out Seasoning of six (6) months or less on all occupancy types is not allowed. The borrower must own property at the time of the application for Cash-out refinance.

At least one borrower must be on title to the subject property for at least six months prior to the disbursement date unless one of the following exceptions apply:

- The borrower acquired the property through an inheritance or was legally awarded the property (divorce, separation, or dissolution of a domestic partnership)
- If the property was owned prior to closing by a limited liability corporation (LLC) that is majority-owned or controlled by the borrower(s), the time it was held by the LLC may be counted towards meeting the borrower's six-month ownership requirement. The LLC is considered majority-owned by the borrower(s) in the following scenarios:
 - Scenario A: The borrower is 50% owner and non-borrower is 50%.
 - The borrower is not the majority owner. Time vested in LLC is not applied to seasoning.
 - Scenario B: The borrower is 51% owner and non-borrower is 49%.
 - The borrower is the majority owner. Time vested in LLC is applied to seasoning.
 - Scenario C: The borrower is 40% owner and non-borrowers are 20%, 20%, and 20% owners.
 - The borrower is the majority owner. Time vested in LLC is applied to seasoning.
 - Scenario D: The borrower is 50% owner and non-borrowers are 25% and 25% owners.
 - The borrower is the majority owner. Time vested in LLC is applied to seasoning.
- If the property was owned prior to closing by an inter vivos revocable trust, the time held by the trust may be counted towards meeting the borrower's six-month ownership requirement if the borrower is the primary beneficiary of the trust.

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

- Maximum CLTV ratio for the cash out transaction is based upon the lower of the current appraised value or the purchase price plus documented improvements.

4.2.4. PROPERTIES LISTED FOR SALE

To be eligible for a Rate/Term refinance, the subject property must be taken off the market on or before the application date. For investment property, if the subject property was listed for sale in the past 12 months prior to application date, a minimum of 36 months prepayment penalty would be required, and the borrower cannot buydown to no prepayment penalty unless prepayment penalty is prohibited by state.

To be eligible for a cash-out refinance, the subject property must not be listed for sale in the past 6-months. For investment property, if the subject property was listed for sale in the past 12 months prior to application date, a minimum of 36 months prepayment penalty would be required, and the borrower cannot buydown to no prepayment penalty unless prepayment penalty is prohibited by state.

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
- 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. AD, 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. PIGGYBACK

If first and second mortgage is done simultaneously by the borrower and the first mortgage is not originated by AD the following documents must be provided:

- The most recent disclosure or loan estimate from first mortgage at the time of submission to AD
- Final approval letter for first mortgage loan showing all conditions have been satisfied
- Concurrent first note and final closing disclosure from first mortgage transaction

4.2.7. INELIGIBLE DEBT PAYOFF

This restriction applies in both the correspondent and wholesale channels. **This section does not apply to AD refinancing its own previously originated loans, nor does it apply when the lender is an institutional bank or credit union.**

Correspondent channel: Refinances that involve the payoff of a debt originated, funded, assigned to, or currently held by the correspondent lender, or any affiliated of the correspondent lender, submitting the new transaction to AD are ineligible. If the debt being satisfied was originated, funded, or is currently held by the same lender originating the refinance, the transaction is not considered a bona fide refinance and is not permitted.

Wholesale channel: A wholesale broker may not submit a transaction to AD to pay off a loan the broker or any affiliate of the broker directly funded or provided. This applies when the broker serves as the lender of record, funding source, or capital provider on the prior obligation. A broker who originated a prior loan through an unaffiliated lender without providing the funding is not subject to this restriction.

This restriction applies to all occupancy types and product programs, including both rate-and-term and cash-out refinances.

Examples of ineligible scenarios include, but are not limited to:

- The borrower obtained a private or bridge loan directly from the originating lender (or its affiliate) for acquisition or renovation, and that debt is now being paid off with the refinance proceeds.
- The original loan was table-funded by, or assigned to, the same lender that is now originating the refinance.
- A wholesale broker submits a refinance to AD to pay off a private or hard money loan the broker funded directly.
- The debt being satisfied in a seller-held note or owner-financed obligation where the original property seller served as the creditor.

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/>.

For all transactions (HPML and non-HPML), a second full appraisal is required in the following circumstance:

- 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 91-365 days.

The percentage increase in sales price is calculated and then rounded **upward to the next whole percentage**. Any fractional percentage is rounded up (e.g., 19.15% → 20%).

Property flipping guidelines do not apply if the prior transaction involved a sale below market value due to a foreclosure sale or deed-in-lieu of foreclosure.

A second appraisal will be paid for by AD (brokered loans only) only in cases provided for by CFPB's Reg. Z requirements for flip appraisals. In all other instances, a second appraisal is paid for by the borrower.

5.2. NON-ARM’S LENGTH TRANSACTIONS

Non-arm’s length transactions occur when there is a direct or indirect relationship outside of the subject transaction between a borrower/buyer and any party to the loan, such that the relationship could influence the property price, terms, or financing. The appraiser must be informed of the relationship and address any impact on market value.

When the property seller is a corporation, partnership, or any other business entity, it must be ensured that the borrower is not an owner of the business entity selling the property.

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

- Sale to or from **family members or close relatives**.

- **Property trades or swaps** between the buyer and seller.
- **Foreclosure bailouts** where the seller or lender has a relationship with the buyer.
- Transactions involving a **relationship between the buyer and the closing agent, appraiser, builder, or developer** that could influence price or terms.
- **Employee/employer or insider sales** from the seller or affiliated entities.
- **Transfers between entities under common ownership or control**, including parent/subsidiary or affiliated LLC transactions.
- **Private neighbor or friend sales** where the transaction is not exposed to the open market and terms may reflect personal relationships.

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.
- Borrower to provide a copy of the canceled earnest money check paid to the property seller or to the title/escrow agent.
- AD 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 CLTV.
- Maximum CLTV is 65%, unless it is a gift of equity then max CLTV 75.
- 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.
- Employer to employee sales or transfers are not allowed.
- Property trades between buyer and seller are not allowed.
- Commission earned by buyer/borrower cannot be used for down payment or monthly PITIA reserves.
- 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 allowed following the requirements below:

- Primary Residence only.
- Maximum 75% CLTV.
- Must meet all other guidelines for Gift Funds.
- Gift of Equity requires a gift letter, and the equity gift credit is to be shown on the CD.
- Private mortgages on the property are not allowed, the grantor's soft-pulled credit report is required.

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 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 CLTV. The current appraised value may be used to determine CLTV 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 is 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, CLTV is based on the current appraised value.

For lots owned < 12 months from application date for subject transaction, CLTV 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

Texas 50(a)(6) and PR are ineligible.

If the borrower does not have ownership of a primary residence in Texas at the time of application, the borrower must provide confirmation from the title company prior to submission that the transaction can be closed as a non-50a6 file, otherwise, the cash out transaction will be considered as Texas Section 50(A)(6) Transactions and will be ineligible.

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. IRS code does not allow to use 1031 Exchange on a primary residence and AD will follow Fannie Mae restrictions.

6. UNDERWRITING

6.1. MANUAL UNDERWRITING

All Closed-end second loans are required to be manually underwritten. AD Closed-end second 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 Closed-end second lien 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 60 days old before Submission Date and no more than 120 days before date Note is signed.
Income	No more than 120 days before date Note is signed.
Assets	No more than 120 days before date Note is signed.
Appraisal	No more than 360 days before date Note is signed.
Title Commitment & Closing Protection Letter	No more than 90 days before date the Disbursement/Funding date.

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 AD 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

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 on the Prime program. For pricing and eligibility purposes refer to Eligibility Matrix with "No Fico" bucket. If the score is available, the loan may be priced using the actual Representative Loan Score. Borrowers with no credit scores may be considered for DSCR program on a case-by-case basis.

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 (if at least one No FICO - worst case between existing score and no FICO) 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 and active within 12 months OR 2 tradelines reporting for 24 or more months and active within 12 months

To qualify as an acceptable tradeline, the credit line must be reflected on the borrower's credit report. The account must have been open at any given moment in the last 12 months.

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. 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 for Standard Tradelines. For example, if the borrower has one standard tradelines for 12 months then two alternative tradelines for 12 months are required. If the borrower has one standard tradeline for 24 months, then one alternative tradeline for 24 is required. Tradelines with recent serious adverse history are not acceptable.

Acceptable alternative credits:

- 12- or 24-months' rent verification (Professional Management Company VOR for 12 or 24 months, or Private VOR for 24 months + 6 months of canceled checks)
- 12 or 24 months' private mortgage payments (Private VOM for 12 or 24 months + 2 months of canceled checks)
- 12- or 24-months' utility bill (ex. gas, electricity, water, internet) verification
- 12- or 24-months' phone bill verification
- 12- or 24-months' HOA bill verification
- 12- or 24-months' insurance bill verification

6.5.5. 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 \geq 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.

AD Mortgage considers a mortgage lien private if any of the following criteria are met:

- It is not reported on the borrower’s credit report (liens appearing only on a credit supplement are still considered private).
- It is not recorded as a mortgage lien, as verified through title documents, DataTree, county records, or similar sources.
- The mortgage documents include a default interest rate that is higher than the stated interest rate.

6.5.6. MORTGAGE PAYMENT HISTORY

Mortgage payment history for the subject property must be verified for the most recent 12 months for mortgages not reported on the credit report and 24 months for mortgages reflected on credit report.

- See below regarding delinquency requirements.
- On the date of the loan application, the borrower’s existing mortgage must be current, which means that no more than 45 days may have elapsed since the last paid installment date.
- If the borrower acquired the property through an inheritance, the borrower must provide an acceptable payment history after the acquisition date.

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 12-month payment history. Cancelled checks for the most recent 2 months to verify the validity of the 12-month VOM are required if the mortgage is serviced by the private servicer or not reported on credit report.

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.

Following program eligibility criteria applies:

Program	Delinquency Requirement	Description
US Citizens / Perm / Non-Perm. / Alt-Income	0x30x12 and 0x90x24	Borrower cannot have mortgage lates within last 12 months prior to note date and 0x90 mortgage lates within last 24 months prior to note date

US Citizens / Perm / Non-Perm. / Alt-Income DSCR	0x30x12 and 0x90x24	Borrower cannot have mortgage lates within last 12 months prior to note date and 0x90 mortgage lates within last 24 months prior to note date
US Citizens / Perm / Non-Perm. / Alt-Income Foreign National	0x30x12 and 0x90x24	Borrower cannot have mortgage lates within last 12 months prior to note date and 0x90 mortgage lates within last 24 months prior to note date

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.

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 and serviced by a Private Lender or not reported on credit report, only 2-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 if mortgage is reflected on credit report and 12-month period if mortgage is not reflected on credit report. If the borrower acquired properties through an inheritance, the borrower must provide an acceptable payment history after the acquisition date.

*When an REO is stated at initial as free and clear on DSCR loan files we do not require further verification.

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, 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.

6.5.7. 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.

6.5.8. CREDIT EVENTS – BANKRUPTCY / FORECLOSURE / SHORT-SALE / DEED-IN-LIEU / MODIFIED LOAN / FORBEARANCE/ DEFERRALS / 120+ DAYS DELINQUENT

AD considers Bankruptcy, Foreclosure, Short-Sale, Deed-in-Lieu, Loan Modification, Forbearance, Deferrals and 120+ days delinquent as a prior Credit Event. Refer to the specific product matrix for further seasoning requirement information.

In case of COVID-19 forbearance, the borrower is eligible for a new mortgage loan after they make at least three timely, consecutive payments as of the note date of the new transaction. These three payments must be consecutive and may not be made as a lump sum payment.

CHAPTER 7, 11 AND CHAPTER 13 BANKRUPTCY

For a borrower with more than one bankruptcy filing within the past seven years, a seven-year waiting period is required, measured from the most recent dismissal or discharge date.

CLOSED END SECOND LIEN VERIFICATION CHAPTER 7, 11, 13

Chapter 7, 11 and Chapter 13 bankruptcies must be discharged/dismissed for a minimum of 48 months from closing date. Seasoning is measured from the date and year of discharge/dismissal.

DSCR VERIFICATION CHAPTER 7, 11, 13

Chapter 7, 11 and Chapter 13 bankruptcies must be discharged/dismissed for a minimum of 48 months from closing date. Seasoning is measured from the date and year of discharge/dismissal.

FOREIGN NATIONAL VERIFICATION CHAPTER 7, 11, 13

Chapter 7, 11 and Chapter 13 bankruptcies must be discharged/dismissed for a minimum of 48 months from closing date. Seasoning is measured from the date and year of discharge/dismissal.

6.5.9. COLLECTIONS AND CHARGE-OFFS

The following accounts may remain open:

- Collections and charge-offs with a maximum cumulative balance of \$1,000
- Collections and charge-offs that have passed beyond the statute of limitation for that state (supporting documentation required)
- All medical collections

Collection and charge-off balances exceeding the amounts listed above must be paid in full.

6.5.10. INQUIRES

Credit inquiry letter is not required; however, the underwriter will condition if undisclosed debt monitoring shows new debt obtained.

6.5.11. 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. Details of lawsuit must be reviewed to ensure it is unlikely to significantly impact the borrower's financial situation in a negative way, it will not impact the borrower's ability to make the mortgage payment or in any way jeopardize the subject property.

6.5.12. GAP CREDIT REPORT

AD mortgage will monitor borrower's debts until closing date and may adjust DTI values at any time should new trade lines appear, or monthly payments change.

6.5.13. JUDGEMENT AND TAX LIENS

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

6.5.14. FEDERAL INCOME TAX INSTALLMENT AGREEMENT

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
 - 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.

6.5.15. BANK STATEMENTS ANALYSIS TOOLS

AD can accept bank statement analysis tools for calculation of deposits and NSFs 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.

Future income is not permitted for qualifying purposes. Income from a position not yet commenced – including income documented solely by an offer letter, a signed employment contract, or a scheduled raise or promotion – is not eligible. All qualifying income must be currently active and verifiable at the time of application.

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 minimum two (2) year employment history is required. Any gaps in employment that span one or more months must be explained.

AD 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 within 10 business days of the note date.
- Paystub: The underwriter may obtain a year-to-date paystub 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 120 business days of the note date and ensure the business is active. Acceptable methods of business verification include:
 - Secretary of State Website. A list of SOS websites may be found at <https://e-secretaryofstate.com/>
 - Verifying a phone listing and address for the borrower's business using a telephone book, the Internet, or directory assistance
 - Active Insurance policy (Errors & Omissions)
 - Documentation showing registration for remitting sales tax
 - Paid Supplier Invoices
 - Bank Statements with transactions within 120 days
 - Certificate of business existence issued within 120 days
 - CPA verification
- For bank statements programs a business narrative is required prior to submission.
- Underwriter must consider the financial strength of a self-employed borrower's business.

- Underwriter will complete review on borrower's business to validate 2 and more years of existence, and business ownership %. The borrower's business used for qualifying purposes must have been in existence for at least two years. The borrower also must own the business for at least two years in case of the change of ownership. A change in structure is allowed with proper documentation – example borrower previously was a sole proprietor but has changed structure to an LLC with 100% ownership. A minimum of 25% ownership is required for self-employed borrowers.
- A change in the ownership structure of the business during the loan process is prohibited.
- CPA Letter requirements:
 - Attestation that the CPA/Tax Preparer/Enrolled tax agent has filed or reviewed at least previous year of tax returns or financial audit for the borrower.
 - The letter must be signed by CPA/Tax Preparer/Enrolled tax agent and include the preparation date of the document.
 - The license number must be provided.
 - CPA cannot be an employer, employee or a relative of the borrower.
- Underwriter must verify the business ownership using one of the following methods:
 - If the borrower's business registered as single-member LLC/Corporations then the borrower must provide Articles of Incorporation (or state equivalent) and most recent filing with secretary of state. If articles of Incorporation do not list its owners, then CPA Letter with Ownership Breakdown or Addendum will be required. CPA/Tax Preparer/Enrolled tax agent must have either filed or reviewed previous year returns or financial audit.
 - If the borrower's business registered as multiple-member LLC/Corporations/Partnerships and
 - Articles of Incorporation (or state equivalent) **list** its owners, then the borrower must provide Articles of Incorporation, most recent filing with secretary of state and CPA Letter/Operating Agreement/Corporate Bylaws with Ownership Breakdown or Addendum.
 - Articles of Incorporation (or state equivalent) **do not list** its owners, then the borrower must provide Articles of Incorporation, most recent filing with secretary of state and CPA Letter with Ownership Breakdown or Addendum.
 - Sole Proprietor with an EIN can provide EIN letter and most recent filing with secretary of state. If the borrower does not have an EIN or the most recent filing with secretary of state cannot be provided, the borrower must provide a CPA Letter. It must indicate self-employed history and that the borrower is a Sole Proprietor.
- Business ownership will be compared to government resources records to verify consistency with documentation.

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.

Non-Profit:

Non-Profit businesses need to be full doc to confirm borrower's actual income.

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.
- Amended Tax Returns will not be considered unless both the original and amended returns along with a clear explanation for the changes are provided. Tax Returns that appear to be amended solely to increase income for mortgage qualification will not be accepted.
- Wage or Salaried Borrowers:
 - 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. Year-end paystubs can be accepted in lieu of W-2 forms to document annual earnings if needed. A completed Request for Verification of Employment (Form 1005 or Form 1005(S)) is not eligible for standard income documentation unless used in conjunction with documents verifying variable income.
 - 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. When tax returns are in file, Tax Return transcripts are required (unless the transcript request for current year is returned as No Record of Return, with a code 10 or the borrower is a victim of taxpayer identification theft). 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 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. OTHER SOURCES OF INCOME

The following sources of income must be verified using Fannie Mae requirements. In addition, Bonus, Commission, and Overtime only permitted when Full Income (24 Months) documentation or WVOE is received. Full Doc program is not required for other sources of income, unless specified above.

- 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: See details in Rental Income section (6.6.11)

* A period of two (2Y Full Doc, WVOE) year must be used in calculating the average overtime, bonus, and commission income. 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 primary source of earnings is wages/salary.

- Two-year history with same employer is required.
- Bonus, commission, and overtime are allowed under WVOE.
- Completed FNMA Form 1005
- Paystubs, Tax Returns, 4506-C, or W-2's not required.
- For loans with CLTV greater than 70%, two (2) Months Personal Bank Statements required to support the WVOE income. The bank statements must reflect deposits from the employer supporting at least 65% of gross wage/salary reflected on the WVOE. No more than 3 NSF's allowed.
- For loans with CLTV 70 and below, no bank statements are required.
- Must be completed by Human Resource, Payroll Department or Officer of the Company.
- The borrower cannot be employed by family members.
- Gift funds are allowed, the borrower must contribute at least 20% from their own funds with maximum 80% CLTV. Gift funds are not allowed for CLTV above 80%.

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. 1099 must be in the name of the borrower's personal name. Tax returns may be waived and wage-earner documentation requirements followed in [6.6.1 Wage-Earners](#) when all of the following requirements are met:

- 1099s for the most recent 1 year are provided
- 1099s are from the same employer for the past 1 year
- 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
- All gross receipts will have an expense ratio of 10% applied to them

If the borrower does not meet the requirements above, tax returns for the most recent 1 years (IRS Form 1040) are required to determine income and related expenses. If the current year is NROR the direct verification from the employer can be accepted.

If Borrower is a Seasonal 1099 Employee, Unemployment Income Compensation may also be used in qualification provided it can be documented with a 2-year history on Form 1099-G and comments from Borrowers Employer that the UEC is likely to continue are received. UEC must be confirmed on the 1099 Transcripts.

Note: 1099 forms covering a full 1-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 when the 4506C cannot be pulled by AD Mortgage. 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 for 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

If the transcript request is returned as No Record of Return, the following requirements must be met to validate income;

1. Proof of filing, as evidenced by one of the following:
 - a. Cancelled checks or withdrawal, matching amount owed on tax returns, from taxpayer's account to IRS or,
 - b. Refund matching disclosed refund on tax returns into the borrower's account (fully approved 'where's my refund' findings are also acceptable) or,
 - c. IRS stamped 1040s

What year to use: If W2s or tax returns are being used to determine income, the AD 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. The borrower also must own the business for at least two years in case of the change of ownership. 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)
- To understand the nature of business and its operations, underwriter may request the borrower or tax preparer to 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 120 business 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.
- 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 7 should be checked and box 8 should be filled to obtain a transcript of W-2 earnings only.
- 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 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. The bank statements must be translated to English.

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 or when the balance is negative for the day.
- If there are one (1) or more occurrences in the most recent three-month period, maximum of 3 NSFs occurrences in the most recent 12-month period are allowed.
- If there are zero (0) occurrences in the most recent three-month period, maximum of 6 NSFs occurrences in the most recent 12-month period are allowed.

Exception requests for tolerance deviations must include 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 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 (in a case of account being closed or inactive a different account may be considered). 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.
- Schedule C borrowers are considered self-employed. No Business ownership required for Schedule C borrowers
- If personal statement is used for business operations and reflects the company's revenue and expenses flow such statement will follow business bank statement requirements (expense ratio will be applied)
- Verification of the borrowers' business required. Standard 3rd party verification applies. (For Schedule C borrowers verification of employment/income)
- 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

- 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 (in a case of account being closed or inactive a different account may be considered).
- Personal account may be used along with Business Account. If personal statement is used for business operations and reflects the company's revenue and expenses flow such statement will follow business bank statement requirements (expense ratio will be applied) and would be counted towards the maximum accounts allowed to be used.

- Cannot use more than two accounts per business.
- Borrower must own at least 25% of the business.
- 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.
- Verification borrower is 25% or more ownership of the business required. Standard 3rd party verification of business requirements applies.
- 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 income and expenses must be documented using the methods below (the minimum expense ratio for qualification purposes is 10%), 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 a CTEC registered tax preparer or an IRS enrolled tax agent. The preparer must have a currently active license or status at following portals:
 - <https://irs.treasury.gov/rpo/rpo.jsf>
 - <https://www.irs.gov/tax-professionals/ptin-information-and-the-freedom-of-information-act>
 - <https://cpaverify.org/>
 - <https://www.irs.gov/e-file-providers/approved-irs-e-file-for-business-providers>
 - A CTEC registered tax preparer must have active license verified here <https://www.ctec.org/verify?nav=taxpayers>
 - 3) P&L statement – must be certified by a CPA, a CTEC registered tax preparer or an IRS enrolled tax agent – covering the same period as the bank statements. P&Ls and any letters

that come from CPA/Tax Preparer/Enrolled Agent must be signed and include the preparation date. CPA, Tax Preparer or Enrolled Agent must have a currently active license or status at following portals:

- <https://irs.treasury.gov/rpo/rpo.jsf>
- <https://www.irs.gov/tax-professionals/ptin-information-and-the-freedom-of-information-act>
- <https://cpaverify.org/>
- <https://www.irs.gov/e-file-providers/approved-irs-e-file-for-business-providers>
- A CTEC registered tax preparer must have active license verified here <https://www.ctec.org/verify?nav=taxpayers>
- License number must be provided.
- The expenses in the P&L statement must be itemized and reasonable for the nature of the business.
- CPA cannot be an employee or a relative of the borrower.
- 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.

BUSINESS BANK STATEMENT INCOME CALCULATION

- Transfers from other accounts and wire transfers should be evaluated at the underwriter's discretion. If the activity is typical, reasonable, and consistent with the business's normal operations, the funds may be included.
- 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. ASSET UTILIZATION

Asset Utilization may be used to determine qualifying income as the sole source of income or to supplement other income sources. See the applicable AD Product Matrix for credit score and CLTV restrictions, in the case of income combination the stricter guidelines and higher LLPAs will be applied.

Gift funds are allowed, the borrower must contribute at least 20% from their own funds with maximum 80% CLTV. Gift funds are not allowed for CLTV above 80%.

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, money market accounts, and Certificate of deposit (CD)
- 100% of the remaining value of public traded stocks, bonds, and mutual funds
- 80% of retirement assets
- 3-month seasoning of assets required
- Proceeds from cash-out excluded from Qualifying assets

The income calculation is as follows:
Monthly Income = Net Qualified Assets / 60 Months*

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

Eligible trust assets include:

- Assets held in a revocable trust where the trustee to the trust is the borrower.
- Assets in an irrevocable trust where the borrower is the beneficiary, and the borrower has immediate access to the assets of the trust.
- Based upon the assets held in the trust, the above asset percentages apply.

Borrowers must have the lesser of (a) 1.1 times the loan balance or (b) \$1mm in Qualified Assets, both of which must be net of down payment, loan costs and required reserves to qualify. When borrowers are not the only holder of the account, the letter from other parties on the account must be provided stating that 100% of the account funds can be used by the borrower. When asset utilization is used to supplement other income sources, such income must represent less than 50% of the total qualifying income, the minimum asset requirements are waived, the stricter eligibility and worse pricing will be applied.

6.6.10. RENTAL INCOME

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

- Rental income from a 1-unit primary residence or second homes may not be used
- Rental income may be used for the accessory unit subject to the following:
 - Appraisal to reflect zoning compliance is legal
 - Permit is not required to establish zoning compliance
 - Appraisal to include at least one comparable with an accessory unit
 - Income from the accessory unit from Owner-Occupied/2nd Home may not be used as qualifying income
- Required forms:
 - Single Family Comparable Rent Schedule (FNMA Form 1007) or AirDNA Rentalizer for the subject property (purchase with occupancy rate ≥ 60)
 - 1-4 Family Rider Assignment of Rents for all investment properties (FNMA Form 3170)

If rental income from the subject property is not being used to qualify, form 1007 or AirDNA is not required.

Leases to companies owned or controlled, in whole or in part, by the borrower are prohibited and will not be accepted.

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.

If a property is rented on a short-term basis through a short-term rental facilitator (such as Airbnb), rental income may be documented through statements from short-term rental facilitators. For income calculation, use 75% of the average actual short-term rental income received over the most recent 12 months, minus PITIA. If there is no lease agreement, income may be considered only for Investment program purchase transactions using one of the following:

- 75% of the short-term rental income estimate from AirDNA Rentalizer, provided the occupancy rate is 60% or greater, or
- 75% of the Form 1007 market rent, but only if 1007 includes short-term rental comparable properties.

Refer to pricing matrices for maximum CLTV on short-term rental properties.

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) for 2-year Full Doc loans respectively. Income should be averaged. Net rental losses should be included in ratios as a liability. Schedule E must not be provided for alternative income documentation program. Rental income must be documented using fully executed lease (not required for subject property) for alternative income programs. New lease is acceptable for purchase transaction with 2 months payments.

For income calculations on Full Doc programs (non-ADU), the below items are required:

- For purchase transactions:
 - The rental valuation on appraisal form 1007; or
 - Actual value from the current lease agreement if transferred to the borrower from the seller; or
 - New lease is acceptable for purchase transaction with 2 months payments
- For refinancing transactions:
 - cash flow analysis of the Schedule E from the most recent year's federal income tax return; or
 - if rental income is not reported on Schedule E and the borrower can document a qualifying exception according to Fannie Mae requirements, actual rent will be used (lease, 1007 actual rent value)

For income calculations on alternative income programs (non-ADU), the below items are acceptable options:

- Actual rent will be used if provided (lease, 1007 actual rent value,); or
- If actual rent is greater than 1007 by 25%, then (for ex, threshold would be $1007 * 1.25$); or
- If there is no actual rent provided, then rental valuation on appraisal form 1007 will be used

For income calculations on the accessory unit, the below items are acceptable options:

- For purchase transactions:
 - Use the lower of the market rent on FNMA Form 1007 or actual rent.
- For refinancing transactions:
 - Use the actual rent for the accessory unit from FNMA Form 1007 supported by a copy of the current lease agreement with two (2) months proof of current receipt

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) for Full Documentation program. Income should be averaged. Net rental losses should be included in ratios as a liability.

Schedule E must not be provided for an alternative income documentation program. Rental income for alternative income programs must be calculated using actual rent (lease, 1007 actual rent value) supported by 2 cancelled checks.

Rental income from ADU on other real estate properties will not be acceptable.

6.6.11. 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 CLTV for Foreign National

Transactions

- DSCR - Cash-Out will be limited to 55% for Foreign National Transactions

6.6.12. DEBT-SERVICE COVERAGE RATIO (DSCR)

General requirements:

- The DSCR calculation is as follows:
 - Debt-Service Coverage Ratio = Gross Income / Proposed PITIA
- DSCR calculation will be based on the total of both P&I of the 1st lien and the PITIA of the proposed second lien
- For DSCR eligibility requirements refer to the matrix

When a long-term rent is used for DSCR calculation:

100% of long-term rental value will be used for qualification purposes. Leases that have been converted to month-to-month are allowed.

Leases to companies owned or controlled, in whole or in part, by the borrower are prohibited and will not be accepted.

To calculate gross income, actual rent, or rental valuation from 1007 for non-ADU properties may be used:

- Actual rent reflected on:
 - 1007
 - Lease agreement
 - Existing fully executed lease agreement
 - New lease - for purchase transactions: acceptable with 2 months' payments
 - New lease - for refinance transactions: acceptable with 2 months' payments, if the actual rent exceeds the estimated market rent by more than 25%, the rents are capped at 125% (for ex, threshold would be $1007 * 1.25$).

To calculate gross income, actual rent, or rental valuation for the accessory unit (ADU):

- For purchase transactions:
 - The lower of the market rent on FNMA Form 1007 or actual rent may be used.
- For refinancing transactions:
 - The actual rent for the accessory unit from FNMA Form 1007 may be used supported by a copy of the current lease agreement with two (2) months proof of current receipt

A vacant property is allowed with maximum 70% CLTV for refinances transactions.

If there is no actual rent available for review, then rental valuation on appraisal form 1007 will be used. If actual rent is greater than 1007 by 25% then the actual rent from a lease can be used with 2 cancelled checks provided (for ex, threshold would be $1007 * 1.25$).

When a short-term rent is used for DSCR calculation:

75% of short-term rental value will be used for qualification purposes (to adjust for rental expenses).

To calculate gross income, actual rent, or rental valuation from AirDNA rentalizer may be used:

- Actual rent reflected on:
 - Short-term rental agreement (12 months average rental income)
 - 1007 (if reflected as short-term rental)

When no actual rental income is available for review, estimated short-term rental income may be used on purchase transactions only. In such cases, qualifying income may be calculated using:

- 75% of the short-term rental income estimate from AirDNA Rentalizer, provided the occupancy rate is 60% or greater, or
- 75% of the Form 1007 market rent, but only if 1007 includes short-term rental comparable properties.

For refinance transactions, short-term rental income is not permitted when the subject property is occupied under a long-term rental agreement. The short-term rent from accessory unit (ADU) is not allowed.

To proceed with a short term rent the borrower must comply with all state and county regulations for short term rental and sign the short-term rental addendum. The short-term rental is prohibited in VT state and the following counties in NY state (excluding condotels): Kings County, Queens County, New York County, Bronx County, Richmond County.

6.6.13. REDUCED DOCUMENTATION FOR A SECONDARY BUSINESS

This section applies to Full Documentation loans. For alternative documentation, secondary business may be not provided.

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

- 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 to obtain all documentation for self-employed earnings when the secondary business may have a significant impact on the loan.

6.6.14. 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	US Citizen, Permanent ; Non-Permanent / 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 payments are not eligible.
- 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.
- First-time homebuyers with payment shock exceeding 300% are ineligible. Payment shock measures the increase in a borrower’s monthly housing expense compared to their current housing expense. $\text{Payment Shock (\%)} = ((\text{Proposed Housing Expense} - \text{Current Housing Expense}) \div \text{Current Housing Expense}) \times 100$, if the borrower is rent-free (with no housing expenses), the payment shock is not calculated.
- 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 (FN and DSCR not applicable)

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, 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.
- Documentation should identify the source of funds used to pay off or pay down the debt and confirm there are sufficient verified assets remaining for the transaction.

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 lesser 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 account in question does not have a history of delinquency in the last 12 months, 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

- Twelve (12) 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 or sourced for 30 days. If cash out proceeds are used for reserves most recent 1 month's bank statement must be provided prior to closing where funds will be disbursed. Documentation must be provided to evidence seasoning and sourcing by any of the following:

- Most recent 1 month's account statements, or most recent quarterly account statement, indicating opening and closing balances, and reflecting a consecutive 30 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 1 month
- 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
 - Statement date and time-period covered
 - Current balance in US dollars
 - For new bank accounts with less than 30 days seasoning, all 'large' or 'unusual' deposits should be verified (even for DSCR where income not qualified)

6.8.1. PURCHASE TRANSACTION

If the deposit is being used as part of the borrower’s minimum contribution requirement, the AD will verify that the funds are from an acceptable source. “Buy before you sell” funds are considered an ineligible asset source on purchase transactions.

On Purchase transactions - Earnest Money/down payment deposits can be verified by one of the following methods:

- Escrow letter from a deposit holder along with evidence the funds have cleared from the borrower’s account.
- Copy of the borrower’s cancelled check written out to the deposit holder plus clearance from the borrower’s account.
- If the wire is going out from the borrower’s account and it is clearly going to the escrow company, this can be accepted as standalone documentation. If the deduction is a generic “wire transfer”, then a copy of the wire receipt or receipt from escrow is required.

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.

Purchase contract assignment with purchase price increase is not allowed.

6.8.2. GIFT FUNDS

- Gift funds are acceptable on rate/term refinance transactions and no minimum borrower contribution is required. Gift funds are allowed for primary or second home purchase transactions with 80% CLTV without any contribution from the borrower. For CLTV above 80% CLTV, borrower must contribute at least 5% from their own funds. For investment transaction, the borrower must contribute at least 10% from their own funds with maximum 80% CLTV. Gift funds are not allowed for CLTV above 80% on Investment property. Other parameters can affect borrower’s contribution requirements, please, refer to the list below the matrix. See below matrix:

Minimum Borrower Contribution per Occupancy	<=80% CLTV	>80% CLTV
Primary Residence and Second Homes	0%	5%
Investment	10%	Not available
DSCR and Foreign National	10%	Not available

- For WVOE and Asset Utilization, the borrower must contribute at least 20% from their own funds with maximum 80% CLTV. Gift funds are not allowed for CLTV above 80%.
- The first-time home buyers must contribute at least 5% from their own funds on Primary Residence and Second Homes and at least 10% on Investment. Gift funds are not allowed for CLTV above 80% on Investment property.
- Gift funds are allowed for down payment and closing costs. Gift funds are not allowed to be used

for reserves.

- The donor must be an a relative, defined as the borrower’s spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption, legal guardianship, future spouse, or domestic partner residing with the borrower. The donor may not have any affiliation with a party to the transaction, unless transaction is gift of equity (the donor can be a seller).
- An executed gift letter with the gift amount, donor’s name, address, and telephone number and relationship is required.
- Gift of equity is allowed following the requirements below:
 - Primary Residence only.
 - Maximum 75% CLTV.
 - Must meet all other guidelines for Gift Funds.
 - Gift of Equity requires a gift letter, and the equity gift credit is to be shown on the CD.
 - Original Note and 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.
 - Private mortgages on the property are not allowed, the grantor’s soft-pulled credit report 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
 - 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. When used for the down payment or closing costs, if the value of the asset is at least 20% more than the portion of the amount of funds needed from the stocks, bonds, or mutual funds for the down payment and closing costs, no documentation of the borrower’s actual receipt of funds realized from the sale or liquidation is required.
- Borrower ownership of the account and vesting must be documented.
- Most recent marketable securities account covering a minimum 1-month period.
- Non-vested or restricted stock accounts are not eligible for use as down payment, closing costs or reserves.

6.8.4. RETIREMENT ACCOUNTS

- 70% of the vested value of funds from a retirement account may be used for down payment, closing costs, and reserves. However, evidence of liquidation is required when funds are used for down payment or closing costs.
- 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 1-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. Verification of business ownership is required with minimum borrower's ownership of 25% or more.
- When borrower's share in the business is less than 100% a written acknowledgment from other owners is required to use business funds.

6.8.6. RESERVES

There must be verified PITIA reserves remaining after closing, exclusive of closing costs. 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.
- No reserve required for rate/term and Cash out transactions.
- Minimum reserves requirements for purchase transactions based on loan amount:
 - For a loan amount less than or equal to 1,000,000 minimum reserve requirement is 3 months
 - For a loan amount between 1,000,001 and 2,000,000 minimum reserve requirement is 6 months
 - For a loan amount more than 2,000,000 minimum reserve requirement is 12 months
 - The additional requirements apply to the following parameters:
 - 12 months reserves for Foreign Nationals.
- Reserve calculation is based on the PITIA payment at the time of origination.

6.8.7. COUNTRY SPECIFIC

AD 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.

Foreign Nationals from Russia or Ukraine, who are not on OFAC list, can qualify under FN DSCR or Foreign Income programs with assets held in the United States or other international bank account. AD Mortgage will not accept income derived from these countries and will not accept assets held in accounts in these countries.

No individual residing in, holding a passport from, or any company owned by a person from China, Russia, Iran, or North Korea can purchase real estate in Texas unless they are a US Citizen or lawful permanent resident (Green Card holder). VISA holders with citizenship from these “designated countries” are not eligible for a mortgage from AD in Texas. The limitation does not apply to individuals who are lawfully present and residing in the United States at the time of acquiring residential property intended for use as an owner-occupied home. Additional countries may be added to the list in the future by the Texas Governor or other relevant agencies.

6.8.8 CRYPTOCURRENCY

Down payment and closing costs: Currency must be liquidated and deposited into an established US bank account.

Reserves: Loan file must include a statement meeting the requirements under account statements to document ownership of the crypto holdings. Current valuation, within 30 days of the submission date or anticipated closing/loan Note date, can only be determined from the Coinbase exchange. 70% of the current valuation will be considered eligible funds.

7. PROPERTY TYPES

7.1. ELIGIBLE PROPERTY TYPES

- Attached / detached Single Family Residence
- Attached / detached PUDs
- 2-4 unit properties
- Condominiums
- Modular homes

7.1.1. CONDOMINIUMS

AD Mortgage accepts condominiums, and requires Full or Limited review contingent on the loan's LTV and Occupancy. If condo project has active Fannie Mae Condo Project Manager approval or AD Mortgage Condo approval, master insurance and unit HOI must be provided. Since AD relies on Fannie Mae's CPM and Freddie Mac's CPA systems to confirm current condominium project status, any issues reflected in these systems that conflict with NQM guidelines (including, but not limited to, safety concerns or litigation) may require additional documentation, subject to Collateral Underwriting discretion. The underwriter may also request additional documentation following an internal project review. Rural condominiums are not eligible. Condominium and condotel conversion are treated as a new construction.

The maximum number of units that AD Mortgage will finance in any condominium project is 20% of the total units in the project greater than 10 units.

Project review is waived for:

- Detached condo units
- Units in a two- to ten- unit condo project, the project must not be part of a master association or larger development.

To qualify for the project waiver the following requirements must be met:

- the project is not in Condo Project Manager (CPM) with a status of "Unavailable"
- the project meets all applicable insurance requirements
- there are no unaddressed critical outstanding repairs or projects with evacuation orders
- the project is not terminating and is not involved in insolvency proceedings
- project review waiver questionnaire is required to be completed

LIMITED CONDOMINIUM REVIEW

- The condominium HOA is not party to an active or pending litigation that would disqualify the property from a limited review at the underwriter discretion. Details of the litigation(s) must be submitted with project review documentation to determine acceptability. Fannie Mae guidelines will be applied to determine the litigation requirements.
- Projects involved in litigation are typically ineligible and must meet all the following conditions to be considered:

- 1) Minor as defined by FNMA requirements

- 2) Non-structural in nature
 - 3) Do not affect the marketability of the project units
 - 4) The potential damages do not exceed 25% of HOA reserves OR there is documentation from the insurance carrier or attorney representing the insurance carrier that the insurance carrier has agreed to conduct defense and the HOA insurance policy is sufficient to cover the litigation expense.
- Any projects with significant deferred maintenance or have received a directive from a regulatory or inspection agency to mark repairs due to unsafe conditions are not eligible. Significant deferred maintenance includes deficiencies that meet one or more of the following criteria:
 - Full or partial evacuation of the building to complete repairs is required for more than seven days or an unknown period of time
 - The project has deficiencies, defects, substantial damage, or deferred maintenance that:
 - is severe enough to affect the safety, soundness, structural integrity, or habitability of the improvements;
 - the improvements need substantial repairs and rehabilitation, including many major components; or
 - impedes the safe and sound functioning of one or more of the building's major structural or mechanical elements, including but not limited to the foundation, roof, load bearing structures, electrical system, HVAC, or plumbing.
 - Commercial space in project up to 50%.
 - The project, or the subject legal phase, must be 100% complete.
 - Established Projects – at least 90% of the Total units in the project must be sold and closed. HOA must be conveyed to the unit owners.
 - New Projects – at least 75% of the total units in the subject property must be sold (under contract).
 - 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.
 - 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. In new projects, such requirements may be waived at the underwriter's discretion, provided they do not violate other requirements.
 - 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) allowed when deemed reasonable via underwriter discretion.
 - Projects for supporting or continuing care for seniors or life care facilities are ineligible

- Projects are ineligible if a single entity (the same individual, investor group, partnership, or corporation) owns more than the limits below. Vacant units owned by the developer and actively marketed for sale may be excluded from the calculation; however, any units leased by the developer must be included when determining the developer's percentage of ownership. The single-entity ownership requirement may be waived if the transaction is a purchase that will reduce the single-entity ownership concentration and result in a total concentration of 30% or less of the project's units.
 - projects with 5 to 20 units – 2 units
 - projects with 21 or more units – 30%

7.1.2. ACCESSORY DWELLING UNIT

AD will accept a one-unit property with an accessory dwelling unit (ADU). An accessory unit must have a fully functioning kitchen and bathroom. The appraiser is required to provide a description of the accessory unit and analyze any effect it has on the value or marketability of the subject property.

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

- The property is defined as a one-unit property with an accessory unit
- Multiple accessory units are not permitted
- The appraisal report demonstrates that the improvements are typical for the market

Unpermitted ADUs, auxiliary structures and conversions are acceptable only if all of the following requirements are met:

- They are excluded from the appraised value
- They are typical for the subject market area
- The title commitment does not identify any violations related to the absence of permits

7.1.3. KITCHEN

Each property must have a fully functional kitchen. If a property has 2 or more units, each unit must contain a fully functional kitchen.

The kitchen must, at a minimum, contain the following:

- cabinets;
- a countertop;
- a sink with running water; and
- a stove or stove hookup (hotplates, microwaves, or toaster ovens are not acceptable stove substitutes).

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 (Each unit in properties containing two or more units must have gross living area of at least 500 square feet)
- Commercial or multifamily properties
- Condotels
- Cooperatives
- Geodesic dome homes
- Geothermal homes
- Timeshare or segmented ownership
- Acreage > 10 acres
- Unique properties
- Assisted Living Facilities
- Working farms, ranches, orchards
- Mobile home units
- Incomplete properties
- Rural properties
- Mixed Use
- Manufactured Housing
- Barndominiums

7.3. INELIGIBLE FIRST LIENS

- Negative Amortization
- Temporary Buydown
- High cost mortgage loans
- TX Refinance 50 (a)(6)
- Reverse 1st lien mortgage
- Balloon notes or features
- Loans in active forbearance or deferment.
- Unrecorded Mortgages
- Mortgages without a complete payment history
- Home equity lines of credit
- Interest only (First lien Interest Only allowed if Interest Only period ended. Qualify 1st lien Interest Only on Fully Amortized payment on remaining term after Interest Only period)
- Blanket loans
- Private Liens
- Liens not reporting to the credit bureaus (a credit supplement is not acceptable in lieu of the

credit report)

- 1st liens with default interest rates above the note rate as ineligible liens for 2nd lien financing

8. INSURANCE AND TAXES REQUIREMENTS

AD Mortgage must verify borrower has an adequate insurance coverage in place for both first and second lien mortgages as per below requirements. AD Mortgage must be added as an additional insured on the HOI policy.

COVERAGE REQUIREMENTS

Property insurance policies should be written on a "Special" coverage form or equivalent. At a minimum, the coverage must include the perils listed below:

- Fire or lightning
- Explosion
- Windstorm (including named storms designated by the U.S. National Weather Service or the National Oceanic and Atmospheric Administration by a name or number)
- Hail
- Smoke
- Aircraft
- Vehicles
- Riot or civil commotion

If a property insurance policy excludes or limits coverage of any of the required perils, the borrower must obtain an acceptable stand-alone policy that provides adequate coverage for the limited or excluded peril.

All property insurance policies must provide coverage on a replacement costs basis, with the exception of roofs. Any insurance policy that is not based on replacement cost will be considered ineligible.

Roofs must be insured but do not have to be insured on a replacement cost basis. Roofs can be covered under a schedule that converts to actual cash value. Policies that provide coverage on actual cash value basis for Personal Property and structures that are not buildings, are acceptable.

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

The minimum required property insurance coverage amount for a first mortgage must be equal to the lesser of:

- 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.

The underwriter must verify the coverage amount is not less than the minimum required as described above, and the verification source may be the property insurer, an independent insurance risk specialist, or other professional with appropriate resources to make such a determination.

If the coverage amount does not meet the minimum required, 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:

STEP	DESCRIPTION
1	Compare the insurable value of the improvements 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

DEDUCTIBLES AMOUNT

The maximum allowable deductible for all required property insurance perils is 10% of the property insurance coverage amount. When a property insurance policy includes multiple deductibles, such as a separate deductible that applies to windstorms, or a separate deductible that applies to a specific

property element such as the roof, the total amount for such deductibles applicable to a single occurrence must be no greater than 10% of the property insurance coverage amount.

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, and the policy must be paid in full prior or at closing. HOI effective date must start prior to or at the funding date.

EFFECTIVE DATE REQUIREMENTS FOR REFINANCE TRANSACTIONS

If HOI is expiring within less than 30 days from the closing date, the updated policy must be provided to be paid in full at closing.

If the policy expires within more than 30 days:

- and the escrow account for insurance is waived, then borrower shall be responsible for maintaining policy for the complete term of mortgage;
- and an escrow account for insurance is in place, AD will collect all outstanding payments, as well as the additional months required to ensure 13 months of payments at the time of renewal.

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 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 maximum coverage amount available from the NFIP, which is currently \$250,000 per dwelling; or
- the unpaid principal balance of the mortgage.

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, a CBRS, or an OPA, the underwriter 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 underwriter 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 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 AD Mortgage financing.

DEDUCTIBLE REQUIREMENTS FOR FLOOD

The maximum deductible allowed by AD for an NFIP or a private flood insurance policy:

- One- to four-unit properties: The deductible must not exceed the maximum deductible amount currently offered by NFIP for one- to four-unit properties insured under an NFIP Dwelling Form.
- Condo projects: The deductible must not exceed the maximum deductible amount currently offered by NFIP for condo projects insured by an RCBAP. This deductible requirement applies to all condo projects, regardless of the percentage of commercial space.
- PUDs: The deductible on individual attached or detached PUD units must not exceed the maximum deductible amount currently offered by NFIP for one- to four-unit properties insured under an NFIP Dwelling Form.

FLOOD PUD UNITS (attached and detached):

AD 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.

HAZARD INSURANCE

All insurance policies must meet one of the conditions below to be considered acceptable:

- Dwelling coverage on policy is equal to or greater than the appraised value OR
- Replacement cost estimator provided (excluding FL) OR
- Policy contains the verbiage “100% Replacement Cost”, “Guaranteed Replacement Cost”, “Replacement Cost Loss Settlement” or “Replacement Cost” for Dwelling coverage OR
- AD processor certification provided confirming coverage includes “replacement cost” (certification must include date/time, name/contact information of insurance agent) OR
- Coverage equals to the loan amount, as long as the loan amount equals to at least 80% of the insurable value per an RCE received by the insurance agent (if agent is unable to provide an RCE, AD processor cert confirming the insurable value amount will be required - cert must include date/time, name/contact information of insurance agent)

In addition, the policy cannot contain any exclusions and must have a maximum deductible of 10%. Property insurance policies that provide for claims to be settled on an actual cash value basis are not acceptable.

8.1 PROPERTY INSURANCE COVERAGE FOR UNITS IN PROJECT DEVELOPMENTS

REQUIRED COVERAGE FOR CONDO OR PUD PROJECTS

This topic covers requirements for master property insurance policies covering the common elements and residential structures of project developments.

The requirements applicable to condo projects in this topic also apply to two- to four-unit condos and detached condos, unless stated otherwise.

For the purposes of this topic and Individual Property Insurance Requirements for a Unit in a Project Development, the following definitions apply:

- Common elements refers to insurable, non-residential elements of a project development. Examples include, but are not limited to, clubhouses, parking areas or structures, and recreational facilities.
- Residential structures refers to the insurable elements of a building that contains one or more residences.

DETERMINING IF A MASTER PROPERTY INSURANCE POLICY IS REQUIRED

The requirements for individual property insurance policies will vary based on the homeowners' association (HOA) legal documents and the master property insurance policy. The applicable requirements are:

- **PUD Requirements** — Individual property insurance policies as described in a section above are required for each property that AD originates in a PUD project unless the project's legal documents provide for a master property insurance policy that covers both the common elements and residential structures. In that case, AD will accept the master property insurance policy in satisfaction of its insurance requirements for the subject property. The borrower may still have to maintain an individual unit owner policy as described in Coverage Requirements in this topic.

When units located within a PUD are covered by a master property insurance policy maintained by the HOA, the underwriter must verify that the insurance provides coverage for both the common elements and residential structures.

When units located within a PUD are covered by individual property insurance policies maintained by their respective owner(s), the underwriter is not required to verify master property insurance coverage on PUD common elements.

- **Condo Requirements** — Master property insurance policies are required for the common elements and residential structures for each loan that AD originates in a condo project unless the condo project's legal documents require individual property insurance policies for each unit. In that case, the individual property insurance policy must meet the requirements in the section above.

When a master property insurance policy is required, the underwriter must verify that the master property insurance provides coverage for both the common elements and residential structures. The borrower may still have to maintain an individual unit owner policy as described in Coverage Requirements in this topic.

INDIVIDUAL PROPERTY INSURANCE REQUIREMENTS FOR A UNIT IN A PROJECT DEVELOPMENT

To the extent the master property insurance policy does not cover the interior of the unit or improvements to the unit, the borrower must maintain an individual unit owner property insurance policy.

The underwriter must verify the coverage amount is sufficient to restore the unit to its condition prior to a loss event.

Coverage sufficiency should be based on the best information known or available to the underwriter, which may include information obtained from the borrower, in collaboration with the insurer, the HOA legal documents, or other professional with appropriate resources to make such a determination.

Please, refer to the section above (INSURANCE AND TAXES REQUIREMENTS) for coverage requirements, deductible requirements and named insured when an individual property insurance policy is required for a unit in a project development.

COVERAGE REQUIREMENTS FOR PROJECT DEVELOPMENTS

When required, a master property insurance policy must be maintained with premiums paid as a common expense by the HOA, as applicable. The policy must cover all insurable property elements. Common personal property and supplies should be covered, if applicable.

Master property insurance coverage policies covering project developments should be written on a "Special" coverage form or equivalent. At a minimum, the coverage must include the perils listed in the following table.

Required Perils:

- Fire
- Lightning
- Explosion
- Windstorm (including named storms designated by the U.S. National Weather Service or the National Oceanic and Atmospheric Administration by a name or number)
- Hail
- Smoke
- Aircraft
- Vehicles
- Riot or civil commotion
- Vandalism
- Sprinkler leakage
- Sinkhole collapse
- Volcanic eruption
- Falling objects
- Weight of snow, ice or sleet, or water damage

If a master property insurance policy excludes or limits coverage of any of the required perils, the HOA must obtain an acceptable stand-alone property insurance policy which provides adequate coverage for the limited or excluded peril. If the HOA's property insurance policy limits or excludes any required perils, the borrower must provide a stand-alone insurance with the appropriate coverage. The appropriate coverage must be the minimum required property insurance coverage amount for a first mortgage (8. INSURANCE AND TAXES REQUIREMENTS. FIRST MORTGAGES).

The policy must provide for claims to be settled on a replacement cost basis. Policies written on an actual cash value basis are not acceptable.

REQUIRED COVERAGE AMOUNT

Insurance must cover at least 100% of the insurable replacement cost of the project improvements, including common elements and residential structures. 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, or

- Extended Replacement Cost, or
- Replacement Cost.

When the underwriter must verify the coverage amount is not less than the minimum required as described above, the verification source may be the property insurer, an independent insurance risk specialist, or other professional with appropriate resources to make such a determination.

Roofs must be insured but do not have to be insured on a replacement cost basis. Roofs can be covered under a schedule that converts to actual cash value.

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 value of the project improvements, including the individual units, alleviate the risk of a coinsurance penalty being applied in the event of a loss.

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 value.

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

MAXIMUM DEDUCTIBLE AMOUNTS

The maximum allowable deductible for master property insurance policies covering project developments:

- Per occurrence – The maximum allowable deductible for all required property insurance perils is 10% of the master property insurance coverage amount.
- Per occurrence, multiple deductibles – When a master property insurance policy includes multiple deductibles, such as a separate deductible that applies to windstorms, or a separate deductible that applies to a specific property element such as the roof, the total amount for such deductibles applicable to a single occurrence must be no greater than 10% of the insurance coverage amount.
- Per occurrence, per unit – AD will allow a per unit master property insurance policy deductible when the sum of the applicable per unit deductibles is greater than 10% of the coverage amount and all of the following requirements are met.
 - The master property insurance policy has a per unit deductible for named perils specific to a geographic area where such coverage is common and customary; and
 - The borrower's individual property insurance policy includes coverage for the applicable peril(s); coverage for master property insurance policy deductible assessments levied on the unit owner by the HOA for the applicable peril(s); and loss assessment coverage in an

amount sufficient to cover assessments in excess of 10% of the master property insurance policy coverage amount, divided by the number of units

SPECIAL ENDORSEMENTS

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

- 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 coverage must include loss to the undamaged portion of a building, demolition costs, and increased costs of construction. 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. This coverage may be included in the property coverage form, obtained as an endorsement to the master property insurance policy, or the HOA may purchase a stand-alone boiler and machinery policy.

SPECIAL REQUIREMENTS FOR CONDO PROJECTS

Master property insurance policies for condo projects must be endorsed with a Condominium Association Coverage Form or its equivalent. The endorsement must include the following provisions or comparable language:

- Any Insurance Trust Agreement is recognized (ex. If you name an insurance trustee, we will adjust losses with you, but we will pay the insurance trustee. If we pay the trustee, the payments will satisfy your claims against us.)
- Waiver of Rights Recovery (ex. We waive our rights to recover payment from any unit-owner of the condominium that is shown in the declarations.)
- The policy must be primary, even if a unit owner has other insurance that covers the same loss. (ex. A unit-owner may have other insurance covering the same property as this insurance. This insurance is intended to be primary, and not to contribute with such other insurance.)

NAMED INSURED

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

COVERAGE TYPE	REQUIREMENT FOR NAMED INSURED
Condo projects	The master property or flood insurance 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.
PUD common areas	The master property or flood insurance policy must show the HOA as the named insured.

BUILDER/DEVELOPER PROPERTY INSURANCE POLICIES

When a project is under development, it may be covered by the builder/developer's property insurance policy if the policy provides equivalent coverage to the requirements for project developments in this topic. When property coverage ceases per the terms of the builder/developer's policy, the HOA must obtain a master property insurance policy in accordance with AD's requirements.

Separate projects under development by the same developer will be considered affiliated during the period when control of the project has not yet transferred from the builder/developer to the individual owners or related HOA. The affiliated status of the subject project ends when the property coverage ceases per the terms of the builder/developer's policy.

POLICIES COVERING MULTIPLE PROJECTS

Except as described below, unaffiliated projects may not share a master property insurance policy. Each project must maintain its own policy that meets AD requirements, as detailed throughout this topic.

If a property insurance policy that covers multiple unaffiliated projects provides a dedicated coverage amount for each individual covered project, the policy structure may provide equivalent coverage to AD's coverage amount requirements. The coverage amount dedicated to the subject project must be sufficient to cover the full replacement cost value of the project improvements including the common elements and residential structures.

The underwriter must review the insurance policy and any other associated documents needed to adequately evaluate the insurance coverage. The HOA must be protected in the same manner as if it maintained a master property insurance policy. The coverage of each insured project cannot be affected by any actions or omissions of unaffiliated projects covered by the same policy. Additionally, all other master property insurance requirements for project developments must be met.

8.2. TAXES

1. Property taxes that are due within 60 days of the first payment date must be collected in full regardless if escrowed or not.
2. The actual taxes will be used for escrow collection purposes on existing construction.
3. If the partner provides a tax estimate from the title company, assessor's office or the county or other acceptable Third-Party Vendor that is based on the fully assessed land value and improvements and is lower than the CoreLogic/Smart Fees estimator, that tax estimate may be used in lieu of the CoreLogic/Smart Fees estimate.
4. Real Estate taxes will be adjusted as per title commitment where required by the attorney's 3rd party vendor in New York unless the property is a new construction then follow the guidelines specified in the table below.
5. By Transaction Type:

STATE	Purchase Transaction (Existing Construction)	Purchase Transaction (New Construction)	Refinance Transaction (Existing Construction)	Refinance Transaction (New Construction)
California	1.25% of the sales price.	1.25% of the sales price.	The current tax amount.	1.25% of appraised value or current tax amount as long as it is not based on land value only
All other states	The current tax amount.	1.5% of the sales price.	The current tax amount.	1.5% of appraised value or current tax amount as long as it is not based on land value only

9. APPRAISAL REQUIREMENTS

Acceptable forms of primary valuation for loan amount \leq \$250,000:

- AVM with 90%+ confidence score and a new Property Condition Report with acceptable findings.
- Residential Broker Price Opinion (BPO)
- Exterior Drive-By appraisal (2055)
- Full Appraisal completed within the last 360 days supported by secondary valuation product.

Acceptable forms of primary valuation for loan amount $>$ \$250,000:

- Full Appraisal completed within the last 360 days supported by secondary valuation product.

HPML loans that are not Qualified Mortgages require full appraisal with an interior inspection, regardless of the loan balance.

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

AD Mortgage relies on appraisers to provide them with thorough, accurate, and objective appraisal reports that result in reliable opinions of market value so AD 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.

Appraisers or supervisory appraisers must be state-licensed or state-certified (in accordance with the provisions of Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 and all applicable state laws). Appraisers' state license or state certification must be active as of the effective date of the appraisal report. There is no specific requirement for appraisers' E&O minimum coverage.

AD 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. AD 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 AD Mortgage has concerns with any aspect of the appraisal that result in questions about the reliability of the opinion of market value, AD 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 comparables 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.
- "Declining" Markets allowed with maximum of 75% CLTV
- If a loan file is closing under the name of a corporation, it is not necessary for the appraisal to be in the name of the corporation. The appraisal will only be required to reflect the borrower's full name.
- Fannie Mae/Freddie Mac Forms 1004/70, 1025/72, 1073/465 or 2090 must be used.
- Appraisals must be dated within 360 days of the Note date.
- After a 360-day period, a new appraisal is required.
- When two appraisals are required, the following apply:
 - Appraisals must be completed by two independent companies.
 - The CLTV 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.

When more than one appraisal is provided, the CLTV will be determined by the lowest among all appraised values/purchase price.

9.1. ADDITIONAL REQUIREMENTS FOR NEW CONSTRUCTION

NEW CONSTRUCTION

New construction is defined as the following:

- The Certificate of Occupancy or Temporary Certificate of Occupancy was issued within the last 12 months of the AD 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

- Trend of Property Values: "Declining" Markets allowed with maximum of 60% CLTV
- 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 with 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
- At least 2 closed comparable sales must be located outside of subject project development

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	Florida (Max CLTV)
Primary Residence or Second Home	PUD	80%
	Condo	75%
Investment Property	PUD	75%
	Condo	70%

No limitations on 1-4 residential properties without community and no limitations in states other than Florida.

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)

9.2.2. SECONDARY VALUATION PRODUCT REQUIRED FOR EVERY LOAN

An eligible secondary valuation product is required for all loan files, unless a second full appraisal is provided. If a loan has a second full appraisal, then lower of the 2 appraisal values will be used to qualify (for purchase transactions – lesser of the purchase price and appraised values). **The secondary valuation cannot be more than 10% less than the appraised value, otherwise it is deemed ineligible.**

For files requiring a secondary valuation product with AVM, below options are available:

- Secondary valuation waterfall **for SFR/PUD/Condo/2-4 units:**
 1. AVM with 90%+ confidence score from a different vendor is required.
 - The AVM with the highest FSD score (closest to zero) will be treated as the primary valuation product
 - The second AVM will be treated as the secondary valuation product and must support the primary AVM within 10%.
 - If both AVMs have the same FSD, the lower of the two property values must be utilized for determining the CLTV.
 2. If the second AVM is ineligible or unavailable, an alternative primary valuation product is required.

For files requiring a secondary valuation product with BPO, below options are available:

- Secondary valuation waterfall **for SFR/PUD/Condo/2-4 units:**
 1. AVM with 90%+ confidence score is required.
 2. If AVM is ineligible or unavailable, an alternative primary valuation product is required.

For files requiring a secondary valuation product with Drive-By appraisal, below options are available:

- Secondary valuation waterfall **for SFR/PUD/Condo/2-4 units:**
 1. AVM with 90%+ confidence score is required.
 2. If AVM is ineligible or unavailable, CDA is required.
 3. If CDA is ineligible or unavailable, full appraisal is required.

For files requiring a secondary valuation product with appraisal, below options are available:

- Secondary valuation waterfall **for SFR/PUD/Condo/2-4 units:**
 1. FNMA SSR CU score ≤ 2.5
 2. If FNMA SSR CU score is > 2.5 or unavailable, then AVM with 90%+ confidence score is required.
 3. If AVM is ineligible or unavailable, CDA is required.
 4. If CDA is ineligible or unavailable, second appraisal is required & must be ordered at borrower's expense.

- Secondary valuation products may be required for certain flip transactions. Please refer to 5.1. FLIP TRANSACTIONS.

AD mortgage has no tolerance for property value speculations. In case property value is considered “high-risk” by AD’s Collateral and Appraisal Departments, the loan is expedited to the Credit Committee for additional value review, which may result in a decision to limit the loan amount or reject the transaction to manage AD’s credit risk post-origination.

9.2.3. APPRAISAL RECONSIDERATION OF VALUE

Loan Officer can request reconsideration of value from AMC per borrower’s request. The client must fill Appraisal Reconsideration Form. ROV request is available only after appraisal review has been completed and it would be validated for the sufficiency and completeness prior to sending to the appraiser.

Regardless of the outcome of the ROV, the AD is responsible for ensuring the appraisal report and opinion of market value are reliable and adequately supported, and the updated appraisal is a subject to review by Collateral Team.

The ROV process is allowed when it is believed the opinion of value is unsupported; may be deficient due to unacceptable appraisal practices; or reflects prohibited discriminatory practices.

Only one ROV is permitted per appraisal, and the decision after ROV is final. After a loan has closed, ROV request is no longer allowed to be submitted by the borrower.

9.3. TRANSFER OF APPRAISAL TO AD MORTGAGE

AD will accept transfer of 1 appraisal per loan. For acceptable appraisal transfer transactions, the appraiser may not be on any AD Mortgage ineligible list including but not limited to: FHLMC Exclusionary List or FNMA Ineligible List. AD's name does not need to appear as lender on the appraisal. 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. AD will not accept appraisals in broker’s name, unless the broker’s company is also a lender. Appraisals which were ordered without AMC are unacceptable.

If a purchase transaction using a transferred appraisal meets the definition of a “flip transaction” as outlined in Section 5.1 – Flip Transactions, the transferred appraisal is ineligible for use in loan funding. In such cases, a new appraisal must be ordered through the AD Appraisal Management Center in accordance with standard appraisal ordering procedures.

Similarly, refinance transactions relying on a transferred appraisal that reflects an increase in property value and meets the “flip transaction” criteria in Section 5.1 are also ineligible. A new appraisal must be obtained through the AD Appraisal Management Center following established guidelines.

Flip transaction indicators include, but are not limited to, the following thresholds:

- More than a 10% increase in the sales price when the seller/borrower acquired the property within the past 0–90 days.
- More than a 20% increase in the sales price when the seller/borrower acquired the property within the past 91–365 days.

The percentage increase in sales price is calculated and then rounded **upward to the next whole percentage**. Any fractional percentage is rounded up (e.g., 19.15% → 20%).

The transferred appraisal is subject to a full Collateral Underwriting internal value review and acceptance by the CUW. AD reserves the right to reject a transferred appraisal if the integrity and/or quality of the appraisal report are questioned.

All transferred appraisals and supporting documentation comprising the appraisal package are not subject to revisions and are reviewed as is. Underwriters hold the right to reject a transferred appraisal if any revision is required to accept the appraisal package.

9.3.1. APPRAISAL TRANSFER LETTER MUST INCLUDE THE FOLLOWING LANGUAGE

1. Provide on the lender's letterhead
2. Current date
3. Borrower name
4. Property address
5. A statement transferring all rights of the appraisal to AD Mortgage LLC
6. The "Transfer Letter" is to include the following statement:
 - a. (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.
7. 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)
8. 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.
9. The transferring lender's name appears on the appraisal as the transferring lender / client.
10. 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 AD Mortgage's ADM system.
- Appraisal effective date cannot be later than the loan submission date to AD system. Resubmission with the same appraisal is not allowed.
- Appraisal in PDF and MISMO XML format of full appraisal with color photos is required.

- Copy of SSR's (FNMA/FHLMC Portal Results) is requested even if CU score is unavailable (no CU score). Regardless of SSR CU score, an eligible form of secondary valuation (AD-pulled AVM with confidence score of 90%+ and value not more than 10% less than the appraised value) is required for each transferred appraisal.
- Borrower-Initiated Reconsideration of Value (ROV) Disclosure. The disclosure shall expressly state that the borrower is permitted to submit only one borrower-initiated ROV per transaction. This requirement may be satisfied by providing
 - the borrower with a written ROV disclosure contemporaneously with the appraisal report, or
 - documenting confirmation that such disclosure was provided, which may be reflected within the appraisal delivery certificate, the appraisal documentation, or a written confirmation issued by the lender or Appraisal Management Company
- Original appraisal invoice from the original lender. Appraisal fee will be disclosed on LE.
- Appraisal Independence Requirements (AIR) Certificate.
- If any modifications, corrections or material changes are required of the appraisal, a new appraisal must be obtained, no revisions will be accepted.
- After a 360-day period, a new appraisal is required.
- Appraisal Receipt Acknowledgment from the borrower within 3 days of consummation.
- A signed and dated Transfer Letter from the original lender to AD, releasing the appraisal, is required.
- A reason why the loan did not work out with the other lender (most recent approval letter showing conditions list) may be requested, subject to underwriter discretion.
- The transferred appraisal must be from the transferring lender.
 - An appraisal transferred from one lender to another lender, then to AD Mortgage is not acceptable.

9.3.3. APPRAISAL REVIEW REQUIREMENTS

- The transferred appraisal value has to be supported with a Secondary Valuation product (AVM).
- AVM value must be higher than original value or below the original value by 10% or less.
- If Secondary Valuation does not support the appraised value, a new appraisal is required.

10. TITLE AND CLOSING

AD requires one of the following forms of title review (in the sequence of the superiority based on UW discretion):

- Loan amount is less than or equal to \$250,000 **for retail, wholesale and correspondent plus channels only** (any file with vesting changes is ineligible for the options below and requires a full title commitment and settlement services):
 - Title search will be ordered and processed internally by AD. Mobile notary closing (without title company). If this option is not available, then follow the waterfall.
 - Full Title Policy (closing with title company).
- Loan amount greater than \$250,000:
 - Full Title Policy (closing with title company).

General Information:

- Copy of first mortgage note or billing statement (if contains terms of note) must be included in loan file.
- Copy of the mortgage or deed of trust must be included in the loan file.
- Full Title Policy Report is required for Piggyback transactions or if there are no recorded liens or non-recorded blanket liens on the property.
- Sections 10.1.; 10.1.1.; 10.2. apply only when Title Policy is required.

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

10.1. TITLE POLICY FORMS

This section is applicable only when Title Policy is required.

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

- 2021 or 2024 American Land Title Association (ALTA) standard form
- an ALTA short form if it provides coverage equivalent to the 2021 or 2024 ALTA standard form
- in states in which standard ALTA forms of coverage are, by law or regulation, not used, the state-promulgated standard which provides same coverage as the equivalent ALTA form, provided that those forms do not materially impair protection to AD.

10.1.1. TITLE REQUIREMENTS

This section is applicable only when Title Policy is required.

- 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 2021 or 2024 form endorsement, but state forms may be used in states in which standard ALTA forms of coverage are not used in in which the 2021 or 2024 Alta forms have not yet been adopted. However, if these forms are used, AD must ensure that those amendments do not materially impair protection to AD. 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. AD'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

This section is applicable only when Title Policy is required.

The title to the subject property must be good, marketable and released of all encumbrances and prior liens. AD 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, AD 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

At least one borrower from first lien note must also be the borrower on the second lien, all other people on title must sign acknowledgement.

10.3.1. INTER VIVOS REVOCABLE TRUST

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

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.
- If using an opinion letter in lieu of trust agreement, 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 credit qualified as if they were individual borrowers and meet all credit requirements, they must be guarantors on the transaction and sign the note and all security instruments as members/authorized persons of a company. AD requires all individuals with more than or equal to 25% ownership to be qualifying borrowers. 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
- Closing on a series LLC is ineligible.
- Layered entities are permitted up to one layer when there is a single Guarantor of the top entity which is 100% owner/guarantor of bottom entity (title holder/borrower). Entities layered with trust are not eligible.
- A change in the LLC's ownership during the loan process on the purchase transactions is prohibited.
- If ownership of the LLC or the beneficial owner is significantly changed in the past 6 months, the transaction will be treated as Quit Claim Deed with maximum 65% CLTV for refinances only. This does not apply to purchases. Examples of significant changes are below:
 - Ownership was previously less than 25% and has now increased to 25% or more.
 - Ownership for another entity has decreased below 25%.
 - Borrower's ownership stake has increased to majority-owned.
 - This also applies to beneficial owners as well in the case of LLC layering.
 - A beneficial owner natural person or persons who ultimately owns or controls an interest in a legal entity or arrangement, such as a company, a trust, or a foundation.
- If the LLC was acquired within 12 months, then signed and notarized documentation to support the acquisition is required. This includes sales contracts or equivalent.
- Loans vested in the name of an LLC are not reported on personal credit report after funding, unless the loan becomes delinquent

The following LLC documentations must be provided:

- Articles of Incorporation (for single-member LLC must list the owner on Articles and most recent filing with secretary of state to be acceptable without additional documentation)
- CPA Letter or Operating Agreement (only if Articles list owners) with Ownership Breakdown or Addendum.

The ownership will be compared to government resources to verify consistency with documentation.

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. If the entity was acquired within 12 months, then signed and notarized documentation to support the acquisition is required. This includes sales contracts or equivalent. A change in the ownership structure of corporation or partnership during the loan process on the purchase transactions is prohibited.

Individuals with more than or equal to 25% ownership as of submission must be qualifying borrowers. 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. Layered entities are permitted up to one layer when there is a single Guarantor of the top entity which is 100% owner/guarantor of bottom entity (title holder/borrower). Entities layered with trust are not eligible.

Loans vested in the name of a corporation are not reported on personal credit report after funding, unless the loan becomes delinquent.

If ownership of the entity or the beneficial owner is significantly changed in the past 6 months, the transaction will be treated as Quit Claim Deed with maximum 65% CLTV for refinances only. This does not apply to purchases. Examples of significant changes are below:

- Ownership was previously less than 25% and has now increased to 25% or more.
- Ownership for another entity has decreased below 25%.
- Borrower's ownership stake has increased to majority-owned.
- This also applies to beneficial owners as well in the case of entity layering.
- A beneficial owner natural person or persons who ultimately owns or controls an interest in a legal entity or arrangement, such as a company, a trust, or a foundation.

The following documentations must be provided:

- Articles of Incorporation (for single-member Corporation must list the owner on Articles and most recent filing with secretary of state to be acceptable without additional documentation)
- CPA Letter or Corporate Bylaws (only if Articles list owners), with ownership breakdown or addendum or certificate of shares reflecting total and % of ownership for each owner.

The ownership will be compared to government resources to verify consistency with documentation.

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

AD 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, AD 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, Second Home or Investment.

- Not allowed if vesting into LLC, General Partnership or Corporation
- Power of Attorney must be transaction specific and has subject property address.
- Purchase or Rate/term Refinance transactions.
- Embassy closing is not allowed.
- Power of Attorney must be recorded along with security instrument.
- 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 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

Interested party contributions cannot exceed:

- Primary/Second Home - CLTV > 80%: 4%
- Primary/Second Home - CLTV ≤ 80%: 6%
- Investment Property - CLTV > 80%: 4%
- Investment Property - CLTV ≤ 80%: 6%

All interested party contributions must be addressed in the sales contract, appraisal and HUD-1. If an interested party contribution is present, both the appraised value and sales price must be reduced by the contributions amount that exceeds the limits referenced above for LTV/CLTV ratios recalculation.

No interested party contributions are allowed if purchase price is greater than listing price by either 3% or \$5,001. For new construction transactions, optional upgrades do not need to be compared to the listing price. Only the base price plus lot premium will be used for comparison against the listing price.

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,” 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

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.

AD 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 (refer to matrix details).

The following restrictions will apply:

- Cash out transactions are not allowed.

13.3.1. VERIFICATION OF RESIDENCY STATUS

AD Mortgage issues mortgages to lawful non-permanent residents of the United States legally present in the US. Borrowers are legally present in the United States if:

- They have a Social Security Number (SSN); and
- They have current, verified status, which may be documented by a valid employment authorization document (EAD) showing immigration status/program (if status is unclear, the underwriter can request I-797 to verify borrower's status), or other documentation showing immigration status is current (e.g., Green Card, work visa, etc.).

Documents must be current at the time of the note date. If any document is expired as of the note date, it is acceptable to provide proof of application for renewal documented by receiving agency (e.g., Filing receipt, letter with case receipt confirmation.)

The visa classifications allowed as Non-Permanent Resident Aliens are listed in the "Exhibit 1 – VISA".

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 lowest score eligible on the program Representative Score, or "No Score", or "0 FICO" buckets if exist. 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 AD 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. Credit score will be used for qualifying and pricing purposes if at least one score exists.

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 follow minimum reserves requirements from 6.8.6 RESERVES for the subject property, all programs.

The seasoning requirement for purchase, rate/term, and cash out refinance is 30 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.

A US bank account is required prior to clear to close for all non-permanent resident borrowers.

MIXED OR OVERSEAS ASSETS

Will allow overseas business funds into personal accounts. AD will need a letter from the CPA, signed and include the preparation date, 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**. EAD card is not required if visa is active.

All purchase transactions in Florida made to foreign principals, persons, and entities must have the signed Buyer's Affidavit published by the Florida Land Title Association.

13.4.1. VERIFICATION OF RESIDENCY STATUS

The visa types considered as Foreign Nationals listed in "Exhibit 1 – VISA. Visa types considered as Foreign Nationals".

VISA EXPIRATION REQUIREMENTS

Borrower has to have active visa as of the note date or be legally present in the US.

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.

For borrowers without a valid Social Security number, an Individual Taxpayer Identification Number (ITIN) is also allowed. A traditional U.S. credit report is not required for borrowers without a valid SSN, however, would be obtained and taken into consideration if exists.

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 or have a minimum of one active tradeline opened for 24 months with no derogatory history. A Qualifying U.S. Credit borrower is eligible for all investment property products and programs reflected on the AD Investment Property Matrix. If non-U.S. citizen borrower has qualifying U.S. Credit the bank reference letter requirement may be waived.

QUALIFYING FOREIGN CREDIT

The Qualifying Foreign Credit designation refers to non-U.S. citizen borrowers who do not meet the Standard Tradeline requirements. If the borrow has at least one U.S. credit score it will be used for qualifying and pricing purposes even if Standard Tradeline requirements are not met. Bank reference letter must be provided in that case. If the borrower has the foreign credit, it cannot be used for pricing

and eligibility purposes and the loan will be priced as 0 (No Score) in case the borrower does not have the Qualifying U.S. Credit.

AD will accept a bank reference letter or other financial institution letter (e.g., mortgage company, credit card company), 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 does not require to include good standing language.
- The reference letter must be for the borrower, not the borrower's business.
- The reference letter must be on the bank's letterhead, dated and contain full address and contact number of financial institution.

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.
- AD 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, AD 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).
- All documents must be translated to English with original untranslated documents provided.
- 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 to English with original untranslated documents provided.
 - Maximum DTI for foreign nationals is 43%. Minimum reserves 12 months.

- 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 30 calendar days. If cash out proceeds are used for reserves most recent 1 month's bank statement must be provided prior to closing where funds will be disbursed.

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:

- 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, when borrower's share in the business is less than 100% a written acknowledgment from all other owners is required to use business funds.

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

A US bank account is required prior to clear to close for all foreign national borrowers.

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.

13.5. 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.

Non-occupying co-borrowers are ineligible for cash-out transactions.

13.7. FIRST-TIME HOMEBUYER

A first-time homebuyer is defined as a borrower who had no ownership interest in a residential or mixed-use properties up to 20 units in the United States (for Foreign National programs property ownership in any country suffice) during the preceding three (3) year period. If one (1) borrower is a first-time homebuyer and the other borrower is not, then first-time homebuyer guidance does not apply. Residential properties owned under business entity are eligible with a minimum 25% entity ownership requirement.

The following requirements apply to first-time homebuyer transactions:

- The borrower must contribute at 5% own funds for owner occupied transaction and 10% for investment
- Max 80 CLTV for Bank statement document type
- First-time homebuyer is allowed on DSCR program. Short-term rentals are not allowed.
- First-time homebuyers with payment shock exceeding 300% are ineligible. Payment shock measures the increase in a borrower's monthly housing expense compared to their current housing expense. $\text{Payment Shock (\%)} = ((\text{Proposed Housing Expense} - \text{Current Housing Expense}) \div \text{Current Housing Expense}) \times 100$, if the borrower is rent-free (with no housing expenses), the payment shock is not calculated.

13.8. MULTIPLE FINANCED PROPERTIES AND AD EXPOSURE

AD Mortgage exposure may not exceed \$5M aggregate with a maximum of 10 loans for each individual borrower in 6 months span counting from 1st loan's note date to the most recent loan's note date. Exceptions to this policy may 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.

13.9. INELIGIBLE BORROWERS

The following borrowers are not eligible:

- Borrowers with diplomatic immunity or otherwise excluded from U.S. jurisdiction.
- Non-occupant co-borrowers are ineligible for cash-out transactions.
- 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.
- If the application, title, or credit documents indicate the borrower is involved in a lawsuit or litigation

Exhibit 1 - "VISA"

Visa classifications allowed as Non-Permanent Resident Aliens

Visa	Valid EAD Card	Description
B1/A3/G5	C17	Non-immigrant domestic servant (VISA and Valid EAD Card must be combined)
BC-1	N	Broadcaster in the US employed by the International Broadcasting Bureau of the Broadcasting Board of Governors
BC-2,3	y	Spouse, child of BC-1
C-5; C-51	N	Employment creation
C-52-53	C09	Spouse or child of C-5 or C-51
DV- 1,2,3	N	Diversity immigrant, spouse, child
E-1, 2, or spouse of E-1, 2 (the spouse does not get a different number for this category)	A17	Treaty/Trade investor or spouse
E-11/EB-1	N	Person with extraordinary ability in the sciences, arts, education, business or athletics
E-12	N	Outstanding professor or researcher
E-13	N	Multinational executive or manager
E-14 /15	C09	Spouse or child of E11, 12, or 13
E-21	N	Professional holding advanced degree or alien of exceptional ability
E22,23	C09	Spouse, child of E-21
E-3	N	Specialty occupation- Australia
E-31	N	Skilled worker
E-32	N	Professional holding baccalaureate degree
E-34,35	C09	Spouse or child of E31 or 32
EB-5	N	Immigrant Investor
EW-3	N	Other worker

EW-4,4	C09	Spouse or child of EW-3
G-1, 2, 3, 4, 5	N / C04 spouses and children: C04	Employees of international organizations and NATO; spouses and children
H1-B	N	Foreign nationals working in the US in a specialty occupation
H-4	N/A	Spouse or child of H type
I- 5, 51	N	Investor in employment
I-52, 53	C09	Spouse or child of 1-51
IH-3, 4	C09	Child adopted or to be adopted by US citizen
L, L-1a and L-1b	N	Intracompany transferees
L-2	N	Dependents of L-1a and L-1b visa holders
N/A	A02	Lawful temporary resident pursuant to sections 245a or 210 of the INA (temp. agricultural worker)
N/A	A03	Refugee
N/A	A05 (or Valid SSN Card)	Asylum granted
N/A	A12	Temporary protected status
N/A	A13	IMMACT Family Unity beneficiary
N/A	A14	LIFE Act Family Unity beneficiary
N/A	All	Deferred Enforced departure
N/A	A10	Granted withholding of Deportation or Removal
N/A	C12	Spouse of an E2 commonwealth of the Northern Mariana Islands investor, eligible for employment. In the CNMI only
N/A	C14	Alien granted deferred action
N/A	C16	Registry applicant
N/A	C19	Temporary Protected status
N/A	C31	Principal beneficiary or qualified child of approved VAWA self-petition
N/A	C33	DACA
N/A	C10	Nicaraguan Adjustment & Central American Relief act

N/A	C08	Asylum applicant, status pending
N/A	C11	An alien paroled into the United States in the public interest or temporarily for emergency reasons
N-8 OR 9	A07	Parent or child of international organization employee granted permanent residence
NATO-1-6	C07	NATO members, staffs, and families for temporary stay
O-1A, 1B	N	Extraordinary ability in science, education, the arts, business or athletics
R-1		Religious workers
R-5, 51	N	Investor in pilot program
R-52, 53	C09	Spouse or child of R-51
SD-1	N	Religious workers
SD-2, 3	C09	Spouse or child of SD-1
SE-1	N	Employees or former employees of the US Gov't abroad
SE-2, 3	C09	Spouse or child of SE-1
SF-1	N	Former employees of the Panama Canal Company or Canal Zone Gov't
SF-2	C09	Spouse or child of SF-1
SG-1	N	Former employees of the US gov't in the Panama Canal Zone
SG-2	Y	Spouse or child of SG-1
SH-1	N/A	Certain former employees of the Panama Canal Company or Canal Zone gov't on 4/1/79
SH-2	C09	Spouse or child of SH-1
SI	N	Interpreters
SJ-1	N	Foreign medical graduate
SJ-2	C09	Spouse or child of SJ-1
SK-1	N	Retired international organization employee
SK-2	C09	Spouse of SK-1

SK-3	C09	Unmarried child of an international organization employee
SK-4	C09	Surviving spouse of deceased international organization employee
SN-1	N	Retired NATO6 civilian
SN-2, 3	C09	Spouse of child of NATO6 civilian employee
SN-4	C09	Surviving spouse of deceased NATO6 civilian employee
SQ	N	Iraqi/Afghans who work on behalf of the US government
SR 2, 3	C09	Spouse or child of SRI
SR-1	N	Religious workers
T-1-4	A16 OR C25	Victim or spouse or child or parents of victim of human trafficking
T-5, 51	N	Employment creation
T-52, 53	C09	Spouse or child of T-51
TC NAFTA, TN, TD	N	Canadian or Mexican citizens working in the US
U-1-4	A19 OR A20	Victim or family member of victim of criminal activity

Visa types considered as Foreign Nationals

Visa	Valid EAD Card	Description
B-1,2	N/A	Business visitor
B-11, B-16	C09	Unmarried son or daughter of US citizen
B-12, B-17	C09	Child of B-11 or B-16
B31-33	C09	Married son or daughter of US citizen (B-31), spouse of B31 or child of B-31
C-21-25	C09	Spouse or child of permanent resident or FX 1
C-31-33	C09	Spouse or child of US citizen,
CR- 1-2, 5	C09	Spouse or child of US citizen,
CX-1-3	C09	Spouse, child, or stepchild of lawful permanent resident
F-,3, 4; 11, 12, 21-25, 31-33, 41-43, F-2 A&B	C09	Family members of permanent residents or US citizens
F1	C03	Student
FX- 1-3	A09	Spouse or child of permanent resident or FX 1
H-2 A & B	N/A	Temporary workers
H-3	N/A	Temporary training
IR-1-5	C09	Spouse, child, or child to be adopted of US citizen
J-1, J-2	N	Cultural exchange visitor
K-1 or 3	A06	Fiancée of US citizen
L-2, 3	A18	Spouse or child of L-1
M-1	C06	Student seeking practical training after completing studies
P-1, P-2		Non-immigrants coming to the U.S. to perform in athletics or entertainment
Q	N/A	Cultural exchange program
V-1, 2, 3	A15	Married to or a child of a legal permanent resident and you have been waiting at least 3 yrs. for the approval of a petition for lawful permanent resident status