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NON-QM LOAN ELIGIBILITY GUIDELINES

EFFECTIVE 10.16.2023

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1. INTRODUCTION

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

1.1. LENDING PHILOSOPHY

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

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

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

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

1.2. FAIR LENDING STATEMENT

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

1.3. RESPONSIBLE LENDING STATEMENT

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

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

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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.

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

1.4. REGULATORY COMPLIANCE

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

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2. GENERAL PROGRAM INFORMATION

2.1. PROGRAMS

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

- A&D Owner Occupied / Second Home / Investment

Program	Mortgage History	Min FICO	Credit Event (CE) Seasoning	Tradelines	Reserves	Residual Income
Super Prime	0x30x12 and 0x90x24	599	24 months	Standard	3 months	$2,000
Prime	0x60x12	599	12 months	Standard / Limited	3 months	$1,500

- A&D Investment Property / DSCR / Foreign National

Program	Mortgage History	Min FICO	Credit Event (CE) Seasoning	Tradelines	Reserves	Ownership Requirement
DSCR (No DTI)	0x30x12 and 0x90x24	620	24 months	Standard	3 Months	Any Property within past 24 months Required
Foreign National Full Doc	0x30x12 and 0x90x24	660	24 Months	Not Required	12 Months	Not Required
Foreign National DSCR	0x30x12 and 0x90x24	660	24 Months	Not Required	12 Months	Any Property within past 24 months Required

2.2. PRODUCTS

See latest applicable A&D Matrix.

2.3. LOAN AMOUNTS AND LOAN-TO-VALUES

See latest applicable A&D Matrix.

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

2.4. DOCUMENTATION

Documentation types include:

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

2.5. LOAN AGE

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

2.6. PREPAYMENT PENALTIES, POINTS, AND FEES

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

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

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

Where permitted by applicable laws and regulations on an investment property, a prepayment charge may be assessed in the period between one (1) and five (5) years following the execution date of the Note. The 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.

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 KS, MI, MN, NM, OH and RI. Prepayment penalty buydown is required.
- Prepayment penalties are not allowed on loans vested to individuals in IL and NJ. 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.

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- 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 calendar year 2023 the amount is $301,022.

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

2.6.1. FINANCING POINTS

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

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

2.7. EXCEPTIONS

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

2.8. ESCROWS – IMPOUND ACCOUNTS

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

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

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

2.9. TEMPORARY BUYDOWN

A&D Mortgage allows temporary buydown on Owner Occupied properties on Purchase transactions. The note rate without consideration of the bought-down rate will be used for qualifying purposes. The funds for buydown cannot come from the borrower. When the source of the buydown funds is an interested party to the property sale or purchase transaction, interested-party contribution limits apply.

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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.

The borrower or the borrower's spouse is required to own a primary residence or an investment property (may be 2-4 unit property, but not a commercial type of space) in the past 24 months under the DSCR Program (may be past or current ownership history). Residential properties owned under business entity are eligible with a minimum 25% entity ownership requirement. If the loan has more than one borrower, we require only one borrower to own a property. However, the borrower is not required to own primary residence for other investment property programs with income verification.

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

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

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4. TRANSACTION TYPE

4.1. PURCHASE

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

4.1.1. DOCUMENTATION REQUIRED

A copy of the fully executed purchase contract and all attachments or 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

4.2.1. REFINANCE TYPES

- Rate/term refinance
- Cash-out refinance

CREDIT REQUIREMENTS FOR ALL REFINANCE TRANSACTIONS

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

4.2.2. RATE/TERM REFINANCE

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

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

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- the property was previously owned by an inter vivos revocable trust and the borrower is the primary beneficiary of the trust.

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

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

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

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 $2,000.

4.2.3. CASH-OUT REFINANCE

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

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

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

- Existing first mortgage payoff.
- Closing costs and prepaid items (interest, taxes, insurance) on the new mortgage.
- The amount of any subordinate mortgage liens being paid off that do not meet seasoning and draw history requirements as described in Rate/Term Refinance section.
- The amount of any non-mortgage related debt paid off through closing.

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- 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 allowed with the following restrictions:

- For properties acquired less than 6 months, cash money purchase (delayed financing), maximum CLTV ratio for the cash out transaction is based up on the lower of the current appraised value or the borrower's initial investment in the purchase price plus documented improvements (Gift funds are not allowed to be paid back to the borrower used for the initial purchase of the property). These loan files will be underwritten under purchase guidelines and eligibility; however, such loans will be priced as a cash-out (delayed financing).
- To qualify for a cash-out loan with title seasoned less than 6 months, the borrower cannot have taken a loan on the initial purchase of the property.
- Borrower must own property at the time of the application for Cash-out refinance and if a borrower has been on title to the subject property for less than six months prior to the disbursement date unless the property was purchased with cash in the past 6 months (delayed financing) or Quitclaim Deed is used as a purchase method within the past 12 months maximum CLTV of 65% is applied, 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.
    - 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.
- In case not all liens are paid on the property the UW must review current borrowers 12 months payment history, even if that borrower is not on the loan.

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 up on the lower of the current appraised value or the borrower's initial investment in the purchase price plus documented improvements

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4.2.4. PROPERTIES LISTED FOR SALE

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

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

4.2.5. BENEFIT TO BORROWER

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

- Balloon payoff
- Title transfer
- Property retention
- Rate reduction
- P&I reduction
- Debt reduction
- Avoidance of Foreclosure
- Uncontrolled cash-out

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

If the borrower will lose one or more of the benefits of the special mortgage, then both of the following apply:

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

4.2.6. TEXAS SECTION 50(a)(6) TRANSACTIONS

- A Texas Section 50(a)(6) mortgage is a home equity (or cash-out) loan originated under the provisions of Article XVI, Section 50(a)(6), of the Texas Constitution, which allow a borrower to take equity out of a homestead property under certain conditions. All Texas Home Equity transactions must comply with the more restrictive of the A&D Mortgage Loan Non-QM Underwriting Guidelines

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or the Texas Section 50(a)(6) Transactions description within these Guidelines. Loans in the state of Texas, that are not part of Texas Section 50(a)(6) transactions are required to have Non-Homestead Affidavit signed at closing. Underwriter must determine that borrower has enough evidence or proof of an actual primary residence or property where borrower resides at the time of application.

TEXAS SECTION 50(a)(6) SELLER CERTIFICATION

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

- All Texas Section 50(a)(6) mortgages were (or will be) originated pursuant to written processes and procedures that comply with the provisions of the Texas Constitution applicable to mortgage loans authorized by Section 50(a)(6), Article XVI of the Texas Constitution, as amended from time to time.
- The seller has in place a specific process for the receipt, handling, and monitoring of notices from borrowers that seller failed to comply with the provisions of the law applicable to Texas Section 50(a) (6) mortgages. Such process must be adequate to ensure that the seller will correct the failure to comply by one of the authorized means no later than the 60th day after the date the seller is notified of the failure to comply by the borrower.
- An attorney familiar with the provisions of Section 50(a)(6), Article XVI of the Texas Constitution was consulted (or will be consulted prior to origination of the Texas Section 50(a)(6) mortgages) in connection with the development and implementation of the processes and procedures used for the origination of the Texas Section 50(a)(6) mortgages.
- To ensure ongoing compliance with the law applicable to mortgage loans authorized by Section 50(a) (6), Article XVI of the Texas Constitution, the processes and procedures used for the origination of the Texas Section 50(a)(6) mortgages will be reviewed by the seller regularly and will be updated and revised, as appropriate pursuant to clarifications of the law, on a regular and continual basis.
- The seller certifies that it is lawfully authorized to make loans described by Section 50(a)(6), Article XVI, of the Texas Constitution.
- The matters certified herein are representations and warranties of the seller given to A&D Mortgage in connection with each Texas Section 50(a)(6) mortgage.

GENERAL REQUIREMENTS

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

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

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TEXAS SECTION 50(a)(6) LOAN PARAMETERS

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

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

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

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

TEXAS SECTION 50(A)(6) RESTRICTIONS

The following restrictions apply to Texas Home Equity loans:

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

TEXAS SECTION 50(a)(6) OCCUPANCY

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

TEXAS SECTION 50(a)(6) BORROWERS

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

- U.S. Citizens
- Permanent Resident Aliens
- Non-Permanent Resident Aliens The following borrowers are not allowed:
    - Co-signer(s)
    - Non-occupant co-borrowers
    - Borrowers not on title
    - Foreign Nationals
    - Corporations, partnerships, or LLCs

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- Trusts
- Additionally, all non-married owners of the subject property must be borrowers.

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

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

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

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

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

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

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

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

NOTICE CONCERNING REFINANCING A HOME EQUITY LOAN

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

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

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

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

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

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

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

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

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

The Notice Concerning Equity Loan Extension of Credit must be provided to the borrower in English and an additional copy of the notice translated into the written language in which the discussions were

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conducted. To ensure the disclosure is provided to the borrower in the correct language, the loan officer must add a comment to the Loan Submission form identifying the language spoken. The processor must properly identify the language spoken when ordering documents.

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

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

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

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

TEXAS SECTION 50(a)(6) SECONDARY FINANCING

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

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

TEXAS SECTION 50(a)(6) PROPERTY CHARACTERISTICS

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

- Property must be a principal residence constituting the borrower's homestead in state of Texas.
- The homestead property may not exceed the applicable acreage limit as determined by Texas law.
- All separate structures must be included in the homestead exemption.

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- The homestead, as identified on the county appraisal district records, must include ingress/egress to a properly identified public road.
- The new lien may only be secured by the homestead parcel and the market value for CLTV calculation can only be assessed on that parcel.

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

TEXAS HOME EQUITY HOMESTEAD DEFINITIONS		
	URBAN HOMESTEAD DEFINITION	RURAL HOMESTEAD DEFINITION
ACREAGE	Acreage securing the loan may not exceed 10 acres.	Acreage may not exceed 10 acres.
PROPERTY LOCATION AND SERVICES	Property must be located: - Within municipal boundaries, or - Its extraterritorial jurisdiction, or - A platted subdivision and be served by police protection, paid or volunteer fire protection, and at least three of the following services provided by a Municipality or under contract to a municipality: • Electric • Natural gas • Sewer • Storm sewer • Water	The property is not located within municipal boundaries or its extraterritorial jurisdiction, or if the property is located in one of those types of areas: - It is not served by police protection or paid or volunteer fire protection provided by the municipality or under contact to a municipality, and - The municipality providesdirectly or under contract lessthan three (3) of the following services: • Electric • Natural gas • Sewer • Storm sewer • Water

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

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TEXAS SECTION 50(a)(6) CLOSING REQUIREMENTS

TEXAS SECTION 50(a)(6) ATTORNEY REVIEW

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

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

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

The final Closing Disclosure (CD) and a copy of the final loan application must be delivered to/accepted by the borrower(s) during normal business hours one day before closing.

Borrower must sign the Acknowledgment of Itemization of Fees, Points, Interest, Costs and Charges for Texas Home Equity Loan or Line of Credit to evidence their receipt of the final Closing Disclosure and loan application.

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

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

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

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

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

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

Power of Attorney is not allowed.

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TEXAS SECTION 50(a)(6) SURVEY

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

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

TEXAS SECTION 50(a)(6) TITLE

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

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

Title may not include language that:

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

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

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

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

- Notice Concerning Extension of Credit Defined by Section 50(a)(6) (signed by eachowner of the property and each spouse of an owner)
- Acknowledgment of Fair Market Value of Homestead Property (borrower and seller mustsign at closing with an appraisal attached to the Acknowledgment)
- Notice of Right to Cancel (signed by each owner of the property and each spouse of an owner)
- Texas Home Equity Security Instrument (Form 3044.1)
- Texas Home Equity Note (Form 3244.1)
- Texas Home Equity Affidavit and Agreement (Form 3185)
- Texas Home Equity Condo Rider (Form 3140.44), if applicable
- Texas Home Equity PUD Rider (Form 3150.44), if applicable

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- Texas Home Equity Certificate from Originating Lender's Regarding Compliance with Section 50(a)(6) Article XVI of the Texas Constitution signed by the Seller's Attorney
- Texas Home Equity Discount Point Acknowledgment, if applicable
- Affidavit of Non-Homestead for all other dwellings, if borrower owns more than one
- Detailed closing instruction letter acknowledged by title company (Compliance Requirements for Texas Home Equity Loans)

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

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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/ .

If the loan is HPML a second appraisal is required in the following circumstances:

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

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 for non-HPML loans.
- Greater than 20% increase in sales price if seller acquired the property in the past 91-180 days for non-HPML loans.
- Greater than 20% increase in sales price compared to acquisition cost if seller acquired the property in the past 181-365 days.

5.2. NON-ARM'S LENGTH TRANSACTIONS

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

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

- Family member sales.
- Buyer trading properties with the seller.
- Property seller foreclosure bailouts.

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- Existing buyer relationship with closing agent, appraiser, builder, or developer.

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

- Primary residence only.
- Relationship must be fully disclosed.
- An appraisal review product is required.
- Borrower to provide a written explanation stating relationship to the seller and reason for purchase.
- Borrower to provide a copy of the canceled earnest money check paid to the property seller.
- A&D must be satisfied that the transaction makes sense and that the borrower will occupy the property.
- All liens on title to be paid in full and reflected on the settlement statement.
- Lesser of sales price or current appraised value to be used to calculate the CLTV.
- Borrowers cannot provide services on transaction (closing agent, title agent, appraiser, etc.).
- Borrower may not be an owner of a business entity selling the subject property.
- If property was acquired by seller within last 12 months, lower of purchase price or appraised value will be used.

The following additional requirements apply only to family sales:

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

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.

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- 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).

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5.7. STATE SPECIFIC

NEW YORK

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

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

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 A&D will follow Fannie Mae restrictions.

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6. UNDERWRITING

6.1. MANUAL UNDERWRITING

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

6.2. AGE OF DOCUMENTATION

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

Type	Age of Documentation
Credit Report	No more than 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 120 days before date Note is signed. *Re-certification allowed as per underwriter's discretion
Title Commitment & Closing Protection Letter	No more than 60 days before date Note is signed.

6.3. CUSTOMER IDENTIFICATION PROGRAM (CIP)

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

6.4. FRAUD REPORT & LOAN INTEGRITY

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

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

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

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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 remained open within 12 months OR 2 tradelines reporting for 24 or more months and remained open within 12 months

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For Super Prime and Prime, if the primary borrower has three (3) credit scores, the minimum tradeline requirement is waived. For loans when the primary borrower has less than three (3) credit scores, each borrower must meet the minimum tradeline requirements. For DSCR, if at least one borrower has three (3) credit scores, the minimum tradeline requirement is waived, otherwise, each borrower must meet the minimum tradeline requirements.

To qualify as an acceptable tradeline, the credit line must be reflected on the borrower's credit report. The tradeline requirement applies to all borrowers whose income was used for qualification purposes, unless the requirement is waived. 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. LIMITED TRADELINES

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

- Primary residence, second homes and investment properties allowed under "Prime" program.
- If a transaction is a purchase 10% minimum borrower contribution for owner occupied and minimum 20% borrower contribution on investment property are required.

When qualifying with Limited Tradelines, a no FICO (0 FICO) (if no score exists) or Representative Loan Score is used to qualify the borrower under Prime.

6.5.5. INSUFFICIENT TRADELINES/ALTERNATIVE CREDIT

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

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Acceptable alternative credits:

- 12 or 24 months' rent verification (Professional Management Company VOR for 12 or 24 months, or Private VOR for 12 or 24 months + 6 months of canceled checks)
- 12 or 24 months' utility bill verification
- 12 or 24 months' phone bill verification
- 12 or 24 months' HOA bill verification
- 12 or 24 months' insurance bill verification

6.5.6. CREDIT EVALUATION

All accounts, revolving and installment, reported by the borrower on the application must be verified directly by a credit reference or verified on the credit report. The balance, rating and terms of the account must be verified.
Past due consumer debts can be no more than 30 days past due at time of closing.

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

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

6.5.7. MORTGAGE PAYMENT HISTORY

Mortgage payment history for the subject property on refinance transactions or quit claim deed must be verified for any person or entity 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.
- Mortgage must be reviewed up to and including the month prior to the closing of the new loan.
- Mortgages must be current at application and closing.

Acceptable sources include institutional or private Verification of Mortgage (VOM). The underwriter must obtain the current balance, current status, monthly payment amount and a satisfactory 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.
- Borrowers who were in a forbearance agreement are eligible if their payment history is available

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and the borrowers have been making timely monthly payments since the forbearance period ended. If the payment history is not available or if the borrowers missed any payments after the forbearance period ended, the borrowers are not eligible.

- Borrowers who accepted a payment deferral plan and demonstrate a payment history reflecting three timely payments on their mortgage are eligible.

Following program eligibility criteria applies:

Program	Delinquency Requirement	Description
Super Prime	0x30x12 and 0x90x24	Borrower cannot have mortgage lates within last 12 months and 0x90 mortgage lates within last 24 months
Prime	0x60x12	Borrower cannot have 60 days late mortgage payments within last 12 months
DSCR	0x30x12 and 0x90x24	Borrower cannot have mortgage lates within last 12 months and 0x90 mortgage lates within last 24 months
Foreign National	0x30x12 and 0x90x24	Borrower cannot have mortgage lates within last 12 months and 0x90 mortgage lates within last 24 months

HOUSING PAYMENT HISTORY FOR ADDITIONAL PROPERTIES OWNED BY BORROWER

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

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

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

- A mortgage history will be required on (3) largest investment properties, including the subject property (unless subject transaction is a purchase). In addition, the borrower's primary residence housing history is required to be verified.
- VOM or equivalent – Private Lender – When investment properties are financed and serviced by a Private Lender, 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.

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

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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.

6.5.8. PAYMENT HISTORY ON ANY OTHER PROPERTY

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

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

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

CHAPTER 7, 11 AND CHAPTER 13 BANKRUPTCY

SUPER PRIME VERIFICATION CHAPTER 7, 11, 13

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

PRIME VERIFICATION CHAPTER 7, 11, 13

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

DSCR VERIFICATION CHAPTER 7, 11, 13

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

FOREIGN NATIONAL VERIFICATION CHAPTER 7, 11, 13

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

6.5.10. COLLECTIONS AND CHARGE-OFFS

The following accounts may remain open:

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

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- All medical collections

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

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

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

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

6.5.11. INQUIRES

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

6.5.12. LAWSUIT OR PENDING LITIGATION

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

6.5.13. GAP CREDIT REPORT

A&D 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.

6.5.14. JUDGEMENT AND TAX LIENS

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

6.5.15. 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

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

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

6.5.16. BANK STATEMENTS ANALYSIS TOOLS

A&D can accept bank statement analysis tools for calculation of deposits and 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.

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

Verification for Employed Borrowers:

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

- Written VOE: An email directly from the employer's work email address that identifies the name and title of the verifier and the borrower's name and current employment status may be used in lieu of a verbal VOE. This is required 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.
- Bank statements: A&D can obtain bank statements evidencing the payroll deposit from the pay period that immediately precedes the note date.

Verification for All Self-Employed Borrowers:

- Underwriter must verify the existence of the business within 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 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

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  - Bank Statements with transactions within 120 days
  - Certificate of business existence issued within 120 days
  - CPA verification
- 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 %. However, a person who has a shorter history of business existence/ownership, from 12 to 24 months, may be considered, as long as the borrower's previous employment is verified to be in a field that provides the same products or services as the current business or in an occupation in which they had similar responsibilities to those undertaken in connection with the current business. In such cases, the underwriter must give careful consideration to the nature of the borrower's level of experience. A minimum of 25% ownership is required for self- employed borrowers.

VERIFICATION OF PREVIOUS EMPLOYMENT

If the borrower does not have business ownership for two years, verification of their previous employment or self-employment may be required. The following documents can be requested:

For employed borrowers:

- Written VOE (Form 1005 or alternatives): An email directly from the employer's work email address that identifies the name and title of the verifier and the borrower's name.
- Verbal VOE and filled out Verification of Employment (Form 1005)

For self-employed borrowers:

- Secretary of State Website. A list of SOS websites may be found at e-secretaryofstate.com
- Verifying a phone listing and address for the borrower's business using a telephone book, the Internet, or directory assistance
- Insurance policy (Errors & Omissions) showing self-employment activity over 24 months ago
- Documentation showing registration for remitting sales tax
- Paid Supplier Invoices showing self-employment activity over 24 months ago
- Bank Statements with transactions showing self-employment activity over 24 months ago
- Certificate of business existence showing self-employment activity over 24 months ago
- CPA verification

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.

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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.
- Wage or Salaried Borrowers:
  - A completed Request for Verification of Employment (Form 1005 or Form 1005(S)), or the borrower's recent paystub (reflecting 30 days of pay and YTD earnings) and IRS W- 2 forms covering the most recent two-year period.
  - A verbal VOE from each employer within 10 calendar days of the note date. The verbal VOE should not indicate a significant reduction of hours or earnings.
  - A completed, signed, and dated IRS Form 4506-C is required for each borrower. The form should be executed. When tax returns are in file, Tax Return transcripts are required. 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. FULL INCOME DOCUMENATION (12-months)

- When tax returns are required, as in the case of investment property ownership, the most recent year should be provided. The definition of most recent is the last return scheduled to have been filed with the IRS. Any Borrower that applied for a tax return extension must provide a copy of the extension in the credit file along with the prior year tax return.

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

6.6.3. OTHER SOURCES OF INCOME

The following sources of income must be verified using Fannie Mae requirements. In addition, Bonus, Commission, and Overtime only permitted when Full Income (24 or 12 Months) documentation is received. Full Doc program is not required.

- 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

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- Child support and alimony
- Rental Income: See details in Rental Income section (6.6.11)

* A period of two (2Y Full Doc, WVOE) or one (1Y Full Doc) 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.
- 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. 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 single 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 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

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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 A&D 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

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

6.6.8. BANK STATEMENTS PROGRAMS

BANK STATEMENT INCOME DOCUMENTATION

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

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

GENERAL REQUIREMENTS FOR ALL BANK STATEMENT INCOME PROGRAMS

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

- The borrower's business used for qualifying purposes must have been in existence for at least two years. The borrower also must own the business for at least two years in case of the change of ownership. However, a person who has a shorter history of business existence/ownership, from 12 to 24 months, may be considered, as long as the borrower's previous employment is verified to be in a field that provides the same products or services as the current business or in an occupation in which they had similar responsibilities to those undertaken in connection with the current business. In such cases, the underwriter must give careful consideration to the nature of the borrower's level of experience. 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).

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- 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 in foreign languages may be provided by Chase, Wells Fargo or other United States banking institutions along with a copy of printouts from accounts with verifiable URL references are acceptable. 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.
- Maximum of 3 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.

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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. 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)
- Income must be disclosed on the Initial signed 1003.
- If the bank statements provided reflect payments being made on obligations not listed on the credit report additional information must be obtained to determine if the liability should be included in the borrower's debt-to-income ratio.
- If the obligation does not belong to the borrower, supporting documentation is required.
- If the borrower is the obligor on the debt, an account statement and pay history should be obtained to review the account for acceptability. The payment must be included in the debt ratio.

PERSONAL BANK STATEMENT INCOME CALCULATION

- 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.

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- 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 due to fraudulent activity a different account may be considered with management approval).
- 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.
- Income must be disclosed on the Initial signed 1003.
- Verification borrower is 25% or more ownership of the business required. Standard 3rd party verification of business requirements applies.
- Business income and expenses must be documented using the methods below, in this order:
    1) Standard Expense Ratio:
        - A standard business ratio of 50% may be applied, and if loan qualifies applying such ratio, additional supporting documentation is not needed.
        - Ratios less than 50% would require a third-party prepared Business Expense Letter or P&L Statement.
        - If the underwriter believes the related industry has an expense ratio that is materially higher than 50%, the underwriter may require additional documentation at their discretion to support such-expense ratio.
    2) Business Expense Letter:
        - An expense letter specifying business industry and expenses as a percent of the gross annual sales/revenue, prepared and signed by either a CPA or 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-

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freedom-of-information-act

- https://cpaverify.org/
- 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/
- 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.
- Borrower will receive credit for the deposits equal to ownership percentage of the company:

Example – if the borrower owns 100% of the company, then 100% of the deposits can be contributed to the borrower. If the borrower owns 25% of the company, only 25% of the deposits may be credited to the borrower.

BUSINESS BANK STATEMENT INCOME CALCULATION

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

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6.6.9. PROFIT AND LOSS STATEMENT PROGRAMS
P&L FOR LAST 12 MONTHS

- Licensed CPA, CTEC registered Tax Preparer or IRS Enrolled Tax Agent to provide P&L covering the last 12 months period.
- P&L needs to be strictly the 12 months most recent consecutive calendar month OR all separated out by years + YTD
    - i.e. 12 month P&L if application date is 10/01 could be:
        - 09/01/2021 – 08/31/2022 qualified at 12 months; OR
        - 01/01/2021 – 12/31/2022 on 1 P&L + YTD on another to validate no current decrease
        - Qualified income for review 2021/12 months; if YTD is lower – require LOE and reviewed under UW's discretion
- CPA, Tax Preparer or Enrolled Agent must have currently active license or status at IRSportals:
    - https://irs.treasury.gov/rpo/rpo.jsf
    - https://www.irs.gov/tax-professionals/ptin-information-and-the-freedom-of-information-act
    - https://cpaverify.org/
    - A CTEC registered tax preparer must have active license verified here https://www.ctec.org/verify?nav=taxpayers
    - License number must be provided.
- 2 months of consecutive personal or business bank statements, the most recent statement dated within 90 days of the note date are required for the business/businesses being used for P&L qualification purposes. Total deposits reflected on the bank statements, minus any inconsistent deposits or deposits unrelated to business activity, must support at least 75% of the gross income reflected on the P&L. P&L period must be consistent with the bank statement period. If bank statements do not support the income reported on the P&L statement, the underwriter has the right to request additional months of bank statements to verify the income reported on the P&L. This is acceptable in cases where the nature of the business implies such a situation. No more than 3 NSFs allowed.
- CPA cannot be an employee or a relative of the borrower.
- P&Ls and any letters that come from CPA/Tax Preparer/Enrolled Agent must be signed and include the preparation date.
- The business needs to have existed for at least the last two years, however, a person who has a shorter history of business existence/ownership, from 12 to 24 months, may be considered, as long as the borrower's previous employment is verified to be in a field that provides the same products or services as the current business or in an occupation in which they had similar responsibilities to those undertaken in connection with the current business. In such cases, the underwriter must give careful consideration to the nature of the borrower's level of experience.

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- ADM will allow P&L from 2 separate companies. Each company must have their own P&L.
- If the borrower owns multiple businesses, A&D will require multiple P&L statements.
- Borrower must own at least 25% of the business, with using pro-rated portion of qualifying income.
- 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%.
- 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
- Expenses:
    - Need to make sense for the type of business, and underwriter may ask for additional documentation at their discretion.
    - The P&L must have the expenses itemized.

P&L FOR LAST 24 MONTHS

- Licensed CPA, CTEC registered Tax Preparer or IRS Enrolled Tax Agent to provide P&L covering the last 24 months period.
- P&L needs to be strictly the 24 months most recent consecutive calendar month OR all separated out by years + YTD
    - i.e. 24 months P&L if application date is 10/01 could be:
        - 09/01/2020 – 08/31/2022 qualified at 24 months; OR
        - 01/01/2020 – 12/31/2021 on 1 P&L + YTD on another to validate no current decrease; OR
        - Qualified income for review 2020&2021/24 months; if YTD is lower – require LOE and reviewed under UW's discretion
        - 2020 (1 P&L) + 2021 (1 P&L) + YTD (another P&L) to validate no current decrease
        - Qualified income for review 2020&2021/24 months; if YTD is lower – require LOE and reviewed under UW's discretion
- CPA, Tax Preparer or Enrolled Agent must have currently active license or status at IRS portals:
    - https://irs.treasury.gov/rpo/rpo.jsf
    - https://www.irs.gov/tax-professionals/ptin-information-and-the-freedom-of-information-act
    - https://cpaverify.org/
    - A CTEC registered tax preparer must have active license verified here https://www.ctec.org/verify?nav=taxpayers

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- License number must be provided.

- 2 months of consecutive personal or business bank statements, the most recent statement dated within 90 days of the note date are required for the business/businesses being used for P&L qualification purposes. Total deposits reflected on the bank statements, minus any inconsistent deposits or deposits unrelated to business activity, must support at least 75% of the gross income reflected on the P&L. P&L period must be consistent with the bank statement period. If bank statements do not support the income reported on the P&L statement, the underwriter has the right to request additional months of bank statements to verify the income reported on the P&L. This is acceptable in cases where the nature of the business implies such a situation. No more than 3 NSFs allowed.
- CPA cannot be an employee or a relative of the borrower.
- P&Ls and any letters that come from CPA/Tax Preparer/Enrolled Agent must be signed and include the preparation date.
- The business needs to have existed for at least the last two years, however, a person who has a shorter history of business existence/ownership, from 12 to 24 months, may be considered, as long as the borrower's previous employment is verified to be in a field that provides the same products or services as the current business or in an occupation in which they had similar responsibilities to those undertaken in connection with the current business. In such cases, the underwriter must give careful consideration to the nature of the borrower's level of experience.
- ADM will allow P&L statements from 2 separate companies. Each company must have their own P&L.
- If the borrower owns multiple businesses, A&D will require multiple P&L statements.
- Borrower must own at least 25% of the business, with using pro-rated portion of qualifying income.
- 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%.
- 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
- Expenses:
    - Need to make sense for the type of business, and underwriter may ask for additional documentation at their discretion.
    - The P&L must have the expenses itemized.
    - Underwriter reserves the right to evaluate declining income and deem it acceptable or not based on other loan characteristics.

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- If the borrower owns multiple businesses, A&D will require multiple P&L statements.

6.6.10. ASSET UTILIZATION

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

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
- 70% of retirement assets
- 4-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

Borrowers must have the lesser of (a) 1.1 times the loan balance or (b) $1mm in Qualified Assets, bothof 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. Exceptions on minimum qualifying assets may be applied on a case-by-case basis with compensating factors if assetsused as supporting income.

6.6.11. RENTAL INCOME

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

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

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

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

- The monthly qualifying rental income must be added to the borrower's total monthly income (income is not netted against the PITIA); and
- The full PITIA must be included in the borrower's total monthly obligations when calculating the DTI. If the rental income or loss relates to a property other than the borrower's primary residence, the following calculations apply:
    - If the monthly qualifying rental income minus the full PITIA is positive, it must be added to the borrower's total monthly income.
    - If the monthly qualifying rental income minus PITIA is negative, the monthly net rental loss must be added to the borrower's total monthly obligations.
- The full PITIA for the rental property is factored into the amount of the net rental income or loss; therefore, it should not be counted as a monthly obligation.

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. 75% of Average actual short-term rental income over the past twelve months less the PITIA must be used to calculate the income. If there is no actual lease agreement, 75% of short-term rental income estimators (AirDNA rentalizer) may be used only for Investment programs. 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 1- or 2-year period (Cash Flow Analysis of Schedule E) for 1- or 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 only on seller's name with 3 months payments (first and last month and deposit).

For income calculations:

- Actual rent will be used if provided (lease, 1007 actual rent value,); or
- If actual rent is greater than 1007 by 25%, then the value used for income calculation is subject to underwriter's discretion (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; or

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- Cash flow analysis of the Schedule E from the most recent year's federal income tax return (applicable for Full Documentation only)

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 1- or 2-year period (Cash Flow Analysis of Schedule E). 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.

For income calculations:

- Actual rent will be used if provided (lease, 1007 actual rent value); or
- Cash flow analysis of the Schedule E from the most recent federal income tax return for 1- or 2- year period (applicable for Full Documentation only)

6.6.12. VENEZUELA SPECIFIC

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

- DSCR – Purchase & Rate/term loans will be limited to 60% maximum CLTV for Foreign National Transactions
- DSCR - Cash-Out will be limited to 55% for Foreign National Transactions

6.6.13. DEBT-SERVICE COVERAGE RATIO (DSCR)

The DSCR calculation is as follows:

Debt-Service Coverage Ratio = Gross Income / Proposed PITIA

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

100% of long-term rental value will be used for qualification purposes.

To calculate gross income, actual rent, or rental valuation from 1007 may be used:

- Actual rent reflected on:
  - 1007
  - Lease agreement (new lease is acceptable for purchase transaction only on seller's name with 2 months payments).

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 value used for income calculation is subject to underwriter's discretion (for ex, threshold would be 1007*1.25).

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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)

If there is no actual rent available for review, then 75% of short-term rental income estimators (AirDNA rentalizer) may be used. If the purpose of transaction is a refinance and the property is occupied by the tenant with the long-term rental agreement, the short-term calculations cannot be used.

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 the following counties in NY state: Kings County, Queens County, New York County, Bronx County, Richmond County.

6.6.14. 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 ≤ 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.

6.6.15. CASH FLOW ANALYSIS

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

6.7. QUALIFYING RATIOS

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

Back-End DTI	Super Prime, Prime / Foreign National
Debt Ratio	55% / 43%

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- All programs will be qualified at the greater of the fully indexed rate or the note rate.
- Interest Only: Qualifying Ratios are based on PITIA payment with the principal and interest payments amortized over the scheduled remaining loan term at the time of recast after the interest only period has expired.
- Transactions resulting in significant payment shock should always be considered by the underwriter. The borrower's income must clearly support the borrower's ability to make the higher monthly payment. It is at the underwriter's discretion to require additional verification of assets or a larger down payment as a compensating factor for a loan with high payment shock.
- For other properties owned, documentation to confirm the amount and/or presence or absence of liability for P&I, taxes, insurance, HOA dues, lease payments or other property-related expenses must be provided.
- DTI > 50% Eligibility:
  - Primary Residence and Second Home
  - Purchase, Rate/Term
  - Maximum 80% CLTV
  - Min FICO 680

6.7.1. RESIDUAL INCOME

All loans must meet the residual income requirements below.

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

6.7.2. CREDIT TYPES FOR QUALIFYING RATIOS

REVOLVING CHARGES /LINES OF CREDIT

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

INSTALLMENT DEBT

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

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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.

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, 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.

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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 60 days. If cash out proceeds are used for reserves most recent 2 months 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 2 months' account statements, or most recent quarterly account statement, indicating opening and closing balances, and reflecting a consecutive 60 days of asset verification
- Supporting documentation should be obtained for single, unexplained deposits that exceed 50% of the borrower's gross monthly qualifying income for the loan
- Documentation of large deposits is not required on refinance transactions
- Written Verification of Deposit (VOD), completed by the financial institution
- Must include the current and average balances for the most recent 2 months
- Large disparities between the current balance and the opening balances will require additional verification or supporting documentation
- Online bank statements are acceptable if they clearly identify the account holder and the URL associated with the financial institution (printouts from the financial institution printed and signed by financial institution officer are acceptable for qualification)
- Account statements must provide all of the following information:
    - Borrower as the account holder
    - Account number
    - Statement date and time-period covered
    - Current balance in US dollars
    - For new bank accounts with less than 60 days seasoning, all 'large' or 'unusual' deposits should be verified (even for DSCR where income not qualified)

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6.8.1. PURCHASE TRANSACTION

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

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

Purchase contract assignment is accepted on case-by-case basis.

6.8.2. GIFT FUNDS

- Gift funds are allowed for primary or second home purchase and Rate/Term 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 20% from their own funds with maximum 80% CLTV. Gift funds are not allowed for CLTV above 80% on Investment property. See below matrix:

Minimum Borrower Contribution per Occupancy	<=80% CLTV	>80% CLTV
Primary Residence and Second Homes	0%	5%
Investment	20%	Not available
DSCR and Foreign National	20%	Not available

- Gift funds are allowed for WVOE, P&L 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%.
- Gift funds are allowed for down payment, closing costs, and to meet reserve requirements. If the borrower reaches minimum contribution requirement funds can be used for reserves.
- Donor must be an immediate family member, future spouse, or domestic partner living with borrower.
- An executed gift letter with the gift amount, donor's name, address, and telephone number and relationship is required.
- Proof of transfer and receipt of funds. Acceptable documentation includes the following:
  - A copy of the donor's check and the borrower's deposit slip, or
  - A copy of the donor's withdrawal slip and the borrower's deposit slip, or
  - A copy of the donor's check to the closing agent, or
  - 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

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wire.

- Gift of Equity is prohibited.

6.8.3. MARKETABLE SECURITIES

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

6.8.4. RETIREMENT ACCOUNTS

- 70% of the vested value of funds from a retirement account may be used for down payment, closing costs, and reserves.
- Borrower ownership of the account and vesting must be documented.
- The account must allow withdrawal regardless of employment status.
- Most recent retirement account statement covering a minimum 2-month period.
- Evidence of liquidation is required when funds are used for down payment or closing costs.

6.8.5. BUSINESS FUNDS

- Business funds may be used for down payment, closing costs and reserves. Verification borrower is 25% or more ownership of the business required. Standard 3rd party verification of business requirements applies.
- When borrower's share in the business is less than 100% a written acknowledgment from all 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.
- 3 months reserves across the board, except:
  - 12 months reserves for Foreign Nationals.
  - 6 months reserves for multifamily and mixed use (not Foreign Nationals)
- Gift Funds can be used for Reserves only for purchase and rate/term money transactions.
- Reserve calculation is based on the PITIA payment at the time of origination.

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- Cash out proceeds can be used for reserves

6.8.7. COUNTRY SPECIFIC

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

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

6.8.8 CRYPTOCURRENCY

A&D will not accept cryptocurrency as any form of assets.

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7. PROPERTY TYPES

7.1. ELIGIBLE PROPERTY TYPES

- Attached / detached Single Family Residence
- Attached / detached PUDs
- Condominiums
- Condotels
- 2-4 unit properties
- Properties located in a short-term rental community limited by CLTV stated on the rate sheet
- Manufactured housing
- Leasehold eligible per Fannie Mae guidelines considered on a case-by case basis
- Multifamily Property (5-8 units)
- Mixed use (2-8 units)
- Rural and agricultural properties

7.1.1. CONDOMINIUMS

A&D 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. Underwriter may request additional documentation upon conducting internal review.

Project review is waived for:

- Detached condo units
- Units in a two- to four- unit condo project

Project review waiver does not apply for condotels.

LIMITED REVIEW	NON-FLORIDA STATES	FLORIDA
Owner Occupied	<= LTV Max LTV per Matrix	<= LTV 75%
Investment and Second Home	<= LTV 75%	<= LTV 70%

LIMITED CONDOMINIUM REVIEW

- The condominium HOA is not party to an active or pending litigation that would disqualify the property from a limited review, except minor litigations as defined by Fannie Mae. Fannie Mae guidelines will be applied to determine the litigation requirements.
- Commercial space in project up to 35%.
- The project, or the subject legal phase, must be 100% complete.
- At least 75% of the total units in the subject property must be sold (under contract)

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

FULL CONDOMINIUM REVIEW

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

- The project, or the subject legal phase, must be 100% complete.
- At least 75% of the total units in the subject property must be sold (under contract)
- For Investment property transaction at least 25% of the total units in the project or subject legal phase must have been conveyed or be under contract for sale to principal residence or second home purchasers.
- No more than 15% of the total units in a project may be 60 days or more past due on their common expense assessments (also known as HOA dues).
- The budget provides for the funding of replacement reserves for capital expenditures and deferred maintenance that is at least 8% of the budget.
- Condo master insurance policy must show either the total number of units in the entire condo project or the total number of units in the building/phase that the subject property is located.
- For projects in which the units are not separately metered for utilities, the underwriter must:
    - determine that having multiple units on a single meter is common and customary in the local market where the project is located, and
    - confirm that the project budget includes adequate funding for utility payments.
- The project must be located on contiguous parcels of land. It is acceptable for a project to be divided by public or private streets.
- The structures within the project must be within a reasonable distance from each other.
- Common elements and facilities, such as recreational facilities and parking, must be consistent with the nature of the project and competitive in the marketplace.
- Unit owners in the project must have the sole ownership interest in, and rights to the use of the project's facilities, common elements, and limited common elements.
- The developer may not retain any ownership interest in any of the facilities related to the

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project. The amenities and facilities—including parking and recreational facilities—may not be subject to a lease between the unit owners or the HOA and another party. Parking amenities provided under commercial leases or parking permit arrangements with parties unrelated to the developer are acceptable.

- If the project was a gut rehabilitation project, all rehabilitation work involved in a condo conversion must have been completed in a professional manner.
- Condominium/Condotel conversion is treated as a new construction.
- When an appraisal is obtained, the appraisal of the subject unit must meet all applicable appraisal requirements.
- Projects may not have mandatory upfront or periodic membership fees for the use of recreational amenities, such as country club facilities and golf courses, owned by an outside party (including the developer or builder).
- Projects cannot be managed and operated as a hotel, motel or resort, or that are primarily transient in nature even though the units are individually owned.
- Projects with covenants, conditions, and restrictions that split ownership of the property or curtail an individual borrower's ability to utilize or occupy the property are not allowed.
- HOA is receiving no more than 10% of its budgeted income from non-incidental business operations owned or operated by the HOA, including, but not limited to, a restaurant, spa, or health club are not allowed.
- Projects for supporting or continuing care for seniors or life care facilities are not allowed.
- Projects in which the HOA or co-op corporation is named as a party to pending litigation, or for which the project sponsor or developer is named as a party to pending litigation that relates to the safety, structural soundness, habitability, or functional use of the project are allowed only in special case-by-case circumstances per Fannie Mae requirements.
- Projects may not have units that are subject to fees on transfer that are payable to any person or entity other than HOA.
- Projects in which a single entity (the same individual, investor group, partnership, or corporation) owns more than the following total number of units in the project are on a case-by-case basis:
    - projects with 2 to 4 units – 1 unit
    - projects with 5 to 20 units – 2 units
    - projects with 21 or more units – 20%
- The total space that is used for nonresidential or commercial purposes may not exceed 35%.

The maximum number of units that A&D Mortgage will finance in any condominium project is the greater of one unit or 15% of the total units sold in the project.

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

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7.1.2. CONDOTELS

A&D Mortgage accepts property in condotel projects, which are not acceptable for GSE purchase, under Investment Property programs only, with the restriction on borrower's qualifying score not below 680 and loan's CLTV as follows:

Purchase ≤ 75% CLTV R/T ≤ 75% CLTV

C/O ≤ 65% CLTV

CONDOTEL REVIEW

The condotel project may be eligible if all the following condotel-specific requirements are met, additionally to requirements of Limited Condominium Review (refer to 7.1.1.):

- The size of the subject property must be not less than 500 square feet of living space. The unit must have a full-size kitchen and a separate bedroom. Units with kitchenettes are considered on a case-by-case basis. Kitchenette can be marked in appraisal or identified by underwriter if one or more of the following features are missing: a fridge, a four-plate stove with oven, a sink, countertops.
- Projects cannot contain the word motel in the name
- Projects cannot have mandatory pooling agreements that require unit owners to either rent their units or give a management firm control over unit occupancy
- Condotel cannot be rural or be located on agricultural zoning

The maximum number of units that A&D Mortgage will finance in any condotel project is the greater of one unit or 15% of the total units sold in the project.

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

7.1.3. RURAL AND ARGICULTURAL PROPERTIES

The property is considered rural when:

- Zoned Rural, RA, Agricultural, or has no zoning.
- When Appraiser(s) indicate property is rural.
- Appraisal commentary identifies subject property and/ or neighborhood as rural.
- Appraisal identifies the present land use as 50%+ vacant.
- Surrounding properties are located on 10+ acres.
- Agricultural influences.
- Subject has outbuildings such as barns, stables, crop storage bins, silos, etc.

The minimum credit score for rural and agricultural property is 680.

A&D Mortgage originate rural and agricultural properties with the following limitations:

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- 1 unit only
- The neighborhood area must be at least 25% built-up
- The property cannot be a working farm
- The property cannot generate income
- Maximum acreage is 10 acres

7.1.4. MANUFACTURED HOME

A manufactured home is any dwelling unit built on a permanent chassis that is attached to a permanent foundation system and evidenced by a HUD Data Plate and HUD Certification Label(s). The minimum credit score for manufactured home is 680.

The manufactured home must be built in compliance with:

- the Federal Manufactured Home Construction and Safety Standards that were established June 15, 1976, as amended and in force at the time the home is manufactured; and
- additional requirements that appear in HUD regulations at 24 C.F.R. Part 3280.

Compliance with these standards will be evidenced by the presence of both a HUD Data Plate and the HUD Certification Label(s). If the original or alternative documentation cannot be obtained for both the HUD Data Plate and the HUD Certification Label(s), the loan is not eligible.

The HUD Data Plate is a paper document located on the interior of the subject property that contains, among other things, the manufacturer's name and trade/model number. The Data Plate includes pertinent information about the unit, including a list of factory-installed equipment. The HUD Certification Label(s), sometimes referred to as a HUD "seal" or "tag," is a metal plate located on the exterior of each section of the home. The Manufactured Home Appraisal Report (Form 1004C) must have photos of both the HUD Data Plate and the HUD Certification Label(s).

A manufactured home must follow listed requirements:

- The unit must not have been previously installed or occupied at any other site or location, except from the manufacturer or the dealer's lot as a new unit.
- The manufactured home must be a one-unit dwelling that is legally classified as real property and cannot include an accessory dwelling unit.
- The towing hitch, wheels, and axles must be removed. The dwelling must assume the characteristics of site-built housing.
- The borrower must own the land on which the manufactured home is situated in fee simple, unless the manufactured home is located in a condo project. For condos, both the land and dwelling, including those located on leasehold estates, must be subject to the condo regime. Otherwise, mortgages secured by manufactured homes located on leasehold estates are not eligible.
- A manufactured home may be located on an individual lot or in a project development.
- A manufactured home cannot be rural or be located on agricultural zoning.

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- The manufactured home must be at least 12 feet wide and have a minimum of 500 square feet of gross living area.
- Site preparation for delivery of the manufactured home must be completed.
- The manufactured home must be attached to a permanent foundation system in accordance with the manufacturer's requirements for anchoring, support, stability, and maintenance. The foundation system must be appropriate for the soil conditions for the site and meet local and state codes.
- The manufactured home must be permanently connected to a septic tank or sewage system, and to other utilities in accordance with local and state requirements.
- If the property is not situated on a publicly dedicated and maintained street, then it must be situated on a street that is community owned and maintained, or privately owned and maintained. There must be adequate vehicular access and there must be an adequate and legally enforceable agreement for vehicular access and maintenance.
- Mortgages secured by existing manufactured homes that have incomplete items, such as a partially completed addition or renovation, or defects or needed repairs that affect safety, soundness, or structural integrity, are not eligible for purchase until the necessary work is completed.
- Manufactured homes that have an addition or have had a structural modification are eligible under certain conditions. If the state in which the property is located requires inspection by a state agency to approve modifications to the property, then the lender is required to confirm that the property has met the requirement. However, if the state does not have this requirement, then the structural modification must be inspected and be deemed structurally sound by a third party who is regulated by the state and is qualified to make the determination. In all cases, the satisfactory inspection report must be retained in the mortgage loan file.

7.1.5 MULTIFAMILY PROPERTY

A&D Mortgage accepts multifamily properties (5-8 units) under Investment Property DSCR programs only, with a min 680 FICO score requirement.

Minimum loan amount of $400,000.

A multifamily property must follow listed requirements:

- 2 vacant units allowed, 75% of 1007 rents for vacant units will be used
- More than 2 vacancies not allowed
- DSCR must be equal or above 1.1
- 3rd Party Management Fees must be subtracted from gross income
- Minimum 6 months reserves (12 months for FN)
- A multifamily property cannot be located on rural or agricultural zoning
- A multifamily property cannot be manufactured house
- A multifamily property must not be in Puerto Rico

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7.1.6 MIXED USE

A&D Mortgage accepts Mixed Use (2-8 units) under Investment Property DSCR programs only, with a min 680 FICO score requirement.

Minimum loan amount of $400,000.

A mixed use must follow listed requirements:

- 2-3 Units: Max 1 Commercial Unit and max 1 unit vacant allowed
- 4-5 Units, Max 2 Commercial Units (Commercial Space must not exceed 49% of building area) and max 2 vacant units allowed
- 6-8 Units: Max 3 Commercial Units (Commercial Space must not exceed 49% of building area) and max 2 vacant units allowed
- More than 2 vacancies not allowed
- DSCR must be equal or above 1.1
- 3rd Party Management Fees must be subtracted from gross income
- Minimum 6 months reserves (12 months for FN)
- Commercial use limited to retail or office space. Residential/Commercial zoning acceptable
- Mixed use cannot be located on rural or agricultural zoning
- Mixed use cannot be manufactured house
- Mixed use must not be in Puerto Rico

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7.2 INELIGIBLE PROPERTY TYPES

- Properties with condition rating of C5/C6 or fair/poor
- Properties with construction rating of Q6
- Model home leaseback
- Properties with a private transfer covenant
- Gross living area < 500 square feet
- Commercial properties
- 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

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8. INSURANCE AND TAXES REQUIREMENTS

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.

The property insurance policy must provide for claims to be settled on a replacement cost basis. Property insurance policies that provide for claims to be settled on an actual cash value basis are not acceptable.

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.

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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
InsurableValue	$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.

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EFFECTIVE DATE REQUIREMENTS FOR PURSCHASE TRANSACTIONS

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

EFFECTIVE DATE REQUIREMENTS FOR REFINANCE TRANSACTIONS

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

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

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- 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 A&D Mortgage financing.

DEDUCTIBLE REQUIREMENTS FOR FLOOD

The maximum deductible allowed by A&D 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):

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

UNACCEPTABLE FLOOD INSURANCE POLICIES

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

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

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- A&D 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, A&D 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%.

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 A&D 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, A&D 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.

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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 A&D 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

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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.

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,
- 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.

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.

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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 – A&D 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:

- Inflation Guard Endorsement, when it can be obtained;
    - Building Ordinance or Law Endorsement, if the enforcement of any building, zoning, or land-use law would result in loss or damage, increased cost of repairs or reconstruction, or additional demolition and removal costs to rebuild after a covered loss event occurs. The 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.

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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 A&D'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 A&D 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

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A&D'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. If borrowers have a tax bill, it has to be provided at the time of the initial disclosures. If the tax bill is not provided property taxes will be calculated based on actual Corelogic numbers unless specified in the table below.
3. Real Estate taxes will be adjusted as per title commitment where required by the attorney's 3rd party vendor in New York unless specified in the table below.
4. By Transaction Type:

STATE	Purchase Transaction (Existing Construction)	Purchase Transaction (New Construction)	Refinance Transaction (Existing Construction)	Refinance Transaction (New Construction)
California	1.25% of purchase price	1.25% of purchase price	Current or Existing Tax Bill	1.25% of appraised value
All other states	Current or Existing Tax Bill	1.50% of purchase price	Current or Existing Tax Bill	1.50% of appraised value

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9. APPRAISAL REQUIREMENTS

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

APPRAISAL INTEGRITY

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

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.

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

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

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

- Property condition rating must be: C1, C2, C3 or C4
- Quality of construction rating: must be: Q1, Q2, Q3, Q4 or Q5
- Appraisals should not include comparable greater than six (6) months old at the time of underwriter review. If comparables are more than 6 months old, an explanation from the appraiser is required.
- Properties with values significantly in excess of the predominant value of the subject property's market area may be ineligible.
- 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.
- Multifamily property/mixed use requirements to use FHLMC 71A or 71B, FNMA 1050
- Appraisals must be dated within 120 days of the Note date.

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- After a 120-day period, a new appraisal is required (re-certification of value (1004D) is acceptable, re-certification of value can be done by a different appraiser).
- 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 completed, the CLTV will be determined by the lowest among all appraised values within 120 days or purchase price.

9.1. ADDITIONAL REQUIREMENTS FOR NEW CONSTRUCTION

NEW CONSTRUCTION

New construction is defined as the following:

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

9.1.1. PRIMARY RESIDENCE, SECOND HOME OR INVESTMENT – NEW CONSTRUCTION

NEIGHBORHOOD ANALYSIS

- Degree of Development and Growth Rate: Properties designated as "rural" to be considered on a case-by-case basis.
- Trend of Property Values: "Declining" Markets allowed with maximum of 60% 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

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- 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)
2. Loan amounts > $1,500,000

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**

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valuation cannot be more than 10% less than the appraised value, otherwise it is deemed ineligible.

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

- Secondary valuation waterfall **for SFR/PUD/Condo/2-4 units/condotel/rural/manufactured**:
  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, BPO is required.
  4. If BPO is ineligible or unavailable, Drive By or second appraisal are required & must be ordered at borrower's expense.
  5. If Drive By Appraisal is ineligible or unavailable, a second full appraisal is required.
- Secondary valuation waterfall for **Multifamily and Mixed Use:**
  1. In states where commercial BPO is not available, 2 full eligible appraisal reports are required (e.g. including, but not limited to PA and NC)
  2. For all other states, if a loan has only one original appraisal, a commercial BPO is required.
  3. If commercial BPO is ineligible, a second full appraisal is required.
- Secondary valuation products may be required for certain flip transactions. Please refer to 5.1. FLIP TRANSACTIONS.

A&D mortgage has no tolerance for property value speculations. In case property value is considered "high-risk" by A&D'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 to manage A&D's credit risk post-origination.

9.2.3. APPRAISAL RECONSIDERATION OF VALUE

Loan Officer can request reconsideration of value from AMC and the updated appraisal is subject to review by collateral team to validate the change.

9.3. TRANSFER OF APPRAISAL TO A&D MORTGAGE

A&D will accept transfer of 1 appraisal per loan. For acceptable appraisal transfer transactions, the appraiser may not be on any A&D Mortgage ineligible list including but not limited to: FHLMC Exclusionary List or FNMA Ineligible List. A&D'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.

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

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5. A statement transferring all rights of the appraisal to A&D
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.
11. If a lender is acting in the capacity of a broker (i.e. submitting a file via wholesale channel as a broker), the appraisal must be in the name of a third party lender.

9.3.2. APPRAISAL TRANSFER DOCUMENTATION AND REQUIREMENTS

- Appraisal is to be submitted to A&D Mortgage's ADM system.
- 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. Regardless of SSR CU score, an eligible form of secondary valuation (AVM with confidence score of 90%+ and value not more than 10% less than the appraised value, or BPO with value not more than 10% less than the appraised value,) is required for each transferred appraisal.
- Copy of Invoice. Appraisal fee will be disclosed on LE.
- Appraisal Independence Requirements (AIR) Certificate.
- If any modifications, corrections or material changes are required of the appraisal, the original appraiser must cooperate. If the appraiser fails to cooperate with any requests, a new appraisal must be obtained.
- The transferred appraisal effective date may not be more than 60 days old at the time of submission and may not be more than 120 days old at the time of note.
- After a 120-day period, a new appraisal is required (re-certification of value (1004D) is acceptable, re-certification of value can be done by a different appraiser).
- Appraisal Receipt Acknowledgment from the borrower within 3 days of consummation.
- The transferred appraisal must be from the transferring lender.
    - An appraisal transferred from one lender to another lender, then to A&D Mortgage is not acceptable.

9.3.3. APPRAISAL REVIEW REQUIREMENTS

- The transferred appraisal value has to be supported with a Secondary Valuation product (AVM)

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- 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.

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10. TITLE AND CLOSING

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

10.1. TITLE POLICY FORMS

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

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

10.1.1. TITLE REQUIREMENTS

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

10.2. TITLE EXCEPTIONS

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

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jurisdictions, A&D will require an ALTA 9 Endorsement. If it is not customary in a particular area to supply either the survey or an endorsement, the title policy must not have a survey exception.

10.3. VESTING AND OWNERSHIP

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

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

10.3.1. INTER VIVOS REVOCABLE TRUST

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

The trust must be established by one or more natural persons, solely or jointly. The primary beneficiary of the trust must be the individual(s) who are establishing the trust. The trust must become effective during the lifetime of the person establishing the trust.

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

The trustee must include either:

- The individual establishing the trust (or at least one of the individuals, if 2 or more); or
- An institutional trustee that customarily performs trust functions in and is authorized to act as trustee under the laws of the applicable state.
- The trustee must have the power to hold the title and mortgage the property. This must be specified in the trust. One or more of the parties establishing the trust must use personal income or assets to qualify for the mortgage.
- A copy of the trust is required, or a signed attorney's opinion may be obtained in lieu of the trust documents. The opinion letter must indicate that the trust meets all published requirements and must also include the following:
    - name of the trust
    - date executed
    - settler(s) of the trust
    - whether it is revocable or irrevocable
    - whether the trust has multiple trustees
    - name of trustees
    - manner in which vesting will be held

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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. UW must ensure loans vested in an LLC are solely business-purpose loans for the purchase or refinance of an investment property. The following standards apply:

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

One of the following LLC documentations must be provided:

- Articles of Incorporation and proof of ownership or
- Operating Agreement with Ownership Breakdown or Addendum.

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.

One of the following documentations must be provided:

- Articles of Incorporation and proof of ownership or
- Corporate Bylaws, with ownership breakdown or addendum or certificate of shares reflecting total and % of ownership for each owner.

10.3.4. GUARANTY

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

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

10.3.5. ENTITY IDENTITY REVIEW PROCESS

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

Furthermore, A&D Mortgage will ensure the individual signing on behalf of the borrowing entity has the authority to bind the entity. Confirmation of good standing status must be reviewed on state

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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.
- Title commitment must reflect Power of Attorney on schedule B1.
- Except as otherwise required by applicable law, or unless they are the borrower's relative, none of the following persons connected to the transaction shall sign the security instrument or note as the attorney-in-fact or agent under a power of attorney:
    - the 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.

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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 and/or seller concession cannot exceed:

- Owner Occupied - CLTV > 75%: 4%
- Owner Occupied - CLTV <= 75%: 6%
- Investment Property - CLTV > 70%: 4%
- Investment Property - CLTV <= 70%: 6%

SELLER CONCESSIONS

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

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12. COMPLIANCE

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

12.1. ADDING OR REMOVING A BORROWER

SIX PIECES OF INFORMATION

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

REMOVING APPLICANTS

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.

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- 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/.

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13. BORROWER SPECIFIC TRANSACTIONS

13.1. U.S. CITIZENS

U.S. Citizens are eligible for financing

13.2. PERMANENT RESIDENT ALIENS

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

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

13.3. NON-PERMANENT RESIDENT ALIENS

A Non-Permanent Resident Alien is a non-U.S. citizen authorized to live and work in the U.S. on a temporary basis. Non-Permanent Resident Alien borrowers are eligible for the following (see matrix details):

- Super Prime
- Prime
- DSCR

13.3.1. VERIFICATION OF RESIDENCY STATUS

A&D 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) supported by I-797 form showing immigration status/program, 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.

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QUALIFYING U.S. CREDIT

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

QUALIFYING FOREIGN CREDIT

The Qualifying Foreign Credit designation refers to non-U.S. citizen borrowers who do not meet the Standard Tradeline requirements. A Qualifying Foreign Credit borrower may or may not have a U.S. credit report with no credit score, a single score, or a score with insufficient tradelines. 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 have 3 months of PITIA reserves for the subject property, all programs.

The seasoning requirement for purchase, rate/term, and cash out refinance is 60 calendar days. Assets must be verified in U.S. Dollar equivalency at the current exchange rate via either www.xe.com or the Wall Street Journal conversion table.

MIXED OR OVERSEAS ASSETS

Will allow overseas business funds into personal accounts. A&D 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.

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.

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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. An ITIN is acceptable if the borrower has the ITIN for purposes of reporting taxes from passive income sources only and is not employed in the U.S. A traditional U.S. credit report is not required for borrowers without a valid SSN, 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.

QUALIYING 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 A&D 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 score, it cannot be used for

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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.

A&D 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 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.
- A&D will only include the PITI payment for the borrower's current housing if a payment is included on the 1003. If no payment is indicated, A&D will not require verification or use in the debt-to-income calculation.

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

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

- Letter from employer on company letterhead providing current monthly salary and YTD earnings, OR 2 months' pay stubs with YTD earnings.
- Verification of earnings for the last 2 years (letter from employer or W-2 equivalent).
- Employer to be independently verified (via LexisNexis, D&B International Business Search, Google, or other means of verification).
- All documents must be translated by a certified translator.
- Foreign National borrowers who have been self-employed for at least 2 years are allowed. The following items must be obtained:
    - Letter from a Foreign CPA providing income for the last 2 years and YTD earnings.
    - Self-employed business or Foreign CPA license are to be independently verified (via LexisNexis, D&B International Business Search, Google, Government or State Issued Document or other means of verification).
    - All documents must be translated by a certified translator.
    - Maximum DTI for foreign nationals is 43%. Minimum reserves 12 months.

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- Verification of the existence of the business is required through verbal VOE or similar method. Must verify the business is currently open.

13.4.4. ASSETS & RESERVES

The seasoning requirement for all funds is 60 calendar days. If cash out proceeds are used for reserves most recent 2 months 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:

- If the earnest money deposit was made within 12 months of the application date, the funds must be properly seasoned and sourced with 60 days of asset verification to verify the funds were from the borrower.
- 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.

Assets held in foreign accounts are eligible for reserves and cash to close. Assets must be verified in U.S. Dollar equivalency at the current exchange rate via either www.xe.com or the Wall Street Journal conversion table.

VENEZUELA SPECIFIC

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

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

13.4.5. FOREIGN BORROWERS WITH PRIOR US RESIDENCY

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

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

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13.5. CO-BORROWERS

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

13.5.1. CO-BORROWERS WITH DIFFERENT RESIDENCY

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

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

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

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

13.7. MULTIPLE FINANCED PROPERTIES AND A&D EXPOSURE

A&D Mortgage exposure may not exceed $5M aggregate with a maximum of 5 loans for each individual borrower 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.

13.8. INELIGIBLE BORROWERS

The following borrowers are not eligible:

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

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10. 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 Ell, 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
EW-3	N	Other worker
EW-4,4	C09	Spouse or child of EW-3

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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
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

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N-8 OR 9	A07	Parent or child of international organization employee granted permanent residence
NAT0-1-6	C07	NATO members, staffs, and families for temporary stay
O	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

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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

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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

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