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## 1. Introduction

### 1.1 Forward

This Product Eligibility Guide (“PEG”) describes A&D Mortgage LLC’s (“ADM”) (unless otherwise indicated herein, collectively referred to as the “Firm” or “A&D Mortgage”) product eligibility and underwriting requirements. This PEG is divided into the following Sections:

- Eligible Loan Products
- General Loan Eligibility
- General Underwriting Principles
- Insurance Requirements
- Valuation Principles and Requirements
- Appendix: Forms

By submitting a loan for purchase, each loan seller (“Seller”) certifies that: (i) the Seller has made, or is making, its own credit decision with respect to the loan to the borrower, regardless of whether the Firm wishes to or actually does purchase, or declines to purchase the loan; and (ii) neither A&D Mortgage, nor any of its affiliates and its and its affiliates’ directors, officers, employees, agents, or contractors has influenced, or will influence, the Seller’s credit decision with respect to the loan to the borrower by (a) indicating whether it will purchase the loan if the Seller originates and closes the loan, or (b) any other action or statement.

The information set forth in this PEG is solely for informational purposes and does not constitute a commitment or an offer that may be accepted. No party may rely on any oral or written statement to the contrary by any person. This PEG is subject to change at any time. Any commitment by ADM, as applicable, to purchase a loan would, if made, be issued in a separate, definitive and mutually acceptable agreement signed by the duly authorized signatory of ADM, as applicable. Please consult your own tax, legal, accounting and regulatory advisors to determine the appropriateness and suitability of the transactions contemplated herein.

This PEG is confidential and is intended solely for your exclusive use. Unless the Firm has provided you with its prior written consent, you are prohibited, under any circumstances from disclosing the contents of this PEG to any person (other than to your professional advisors and consultants) and must retain and treat the same as confidential at all times.

### 1.2 Compliance Policy

A&D Mortgage requires each Seller to be aware of, and comply with all federal, state, and local laws that apply to its origination, selling, and servicing practices, as applicable, or any other business practices. Among other things, each Seller must comply with all applicable laws that address, among other issues, fair housing, fair lending, equal credit opportunity, truth-in-lending, discrimination, appraisals, real estate settlement procedures, borrower privacy, data security, escrow account administration, predatory lending, terrorist activity or the enforcement of any of the terms of the mortgage.

A&D Mortgage does not purchase loans that are subject to the Home Ownership and Equity Protection Act of 1994 (“HOEPA”), as described in Section 32 of the Truth-in-Lending Act (“TILA”) and its implementing regulations, as amended from time-to-time”. In addition, the Firm does not purchase loans meeting the definition of “residential



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mortgage transaction,” as defined under the TILA (a purchase-money loan secured by borrower’s principal residence), that have either an annual percentage rate (“APR”) or total points and fees payable by the borrower that exceed the applicable thresholds under HOEPA.

A&D Mortgage will not purchase loans from a Seller that meet the definition of “high cost,” “high risk,” “covered,” “subprime,” or any similar designation under state or local law, regardless of whether any provision of such state law is preempted by federal law with respect to a particular loan or for a particular originator.

## 2. Eligible Loan Products

### 2.1 Eligible Loan Products Grid

**Jumbo Program:** 30-year Fixed Rate Loans

| Purpose                        | Occupancy Status    | No. of Units | Maximum Loan Amount | Maximum LTV/CLTV | Minimum FICO | Maximum DTI (%) | Minimum Reserves (Months) |
|--------------------------------|---------------------|--------------|---------------------|------------------|--------------|-----------------|---------------------------|
| Purchase & Rate Term Refinance | Primary Residence   | 1 Unit       | \$1,500,000         | 80%/80%          | 700          | 43              | 12                        |
|                                |                     |              | \$2,000,000         | 80%/80%          | 700          | 43              | 15                        |
|                                |                     |              | \$2,500,000         | 75%/75%          | 740          | 43              | 24                        |
|                                |                     |              |                     | 70%/70%          | 720          | 43              | 24                        |
|                                |                     |              | \$3,000,000         | 75%/75%          | 780          | 43              | 30                        |
|                                |                     |              |                     | 70%/70%          | 740          | 43              | 30                        |
|                                |                     | 2 Unit       | \$2,000,000         | 70%/70%          | 720          | 43              | 15                        |
|                                | Second Home         | 1 Unit       | \$1,000,000         | 80%/80%          | 720          | 43              | 12                        |
|                                |                     |              | \$1,500,000         | 80%/80%          | 740          | 43              | 18                        |
|                                |                     |              | \$2,000,000         | 75%/75%          | 720          | 43              | 18                        |
|                                |                     |              |                     | 70%/70%          | 760          | 43              | 30                        |
|                                |                     |              | \$2,500,000         | 70%/70%          | 720          | 43              | 30                        |
|                                | Investment Property | 1 Unit       | \$1,000,000         | 70%/70%          | 720          | 43              | 18                        |
|                                |                     |              | \$1,500,000         | 70%/70%          | 740          | 43              | 24                        |
|                                |                     |              | \$2,000,000         | 70%/70%          | 760          | 43              | 24                        |
|                                |                     |              | \$2,000,000         | 60%/60%          | 740          | 43              | 24                        |
|                                |                     | 2-4 Unit     | \$1,000,000         | 65%/65%          | 720          | 43              | 18                        |
|                                |                     |              | \$1,500,000         | 65%/65%          | 740          | 43              | 24                        |
|                                |                     |              | \$2,000,000         | 65%/65%          | 760          | 43              | 24                        |
|                                |                     |              | \$2,000,000         | 60%/60%          | 740          | 43              | 24                        |

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| Purpose            | Occupancy Status  | No. of Units | Maximum Loan Amount | Maximum LTV/CLTV | Minimum FICO | Maximum DTI (%) | Minimum Reserves (Months) | Maximum Cash Out Amount |
|--------------------|-------------------|--------------|---------------------|------------------|--------------|-----------------|---------------------------|-------------------------|
| Cash Out Refinance | Primary Residence | 1 Unit       | \$1,000,000         | 80%/80%          | 720          | 43              | 12                        | \$350k                  |
|                    |                   |              | \$1,000,000         | 75%/75%          | 700          | 43              | 12                        | \$350k                  |
|                    |                   |              | \$1,500,000         | 80%/80%          | 740          | 43              | 15                        | \$350k                  |
|                    |                   |              | \$1,500,000         | 75%/75%          | 720          | 43              | 15                        | \$350k                  |
|                    |                   |              | \$2,000,000         | 75%/75%          | 760          | 43              | 15                        | \$500k                  |
|                    |                   |              | \$2,000,000         | 70%/70%          | 740          | 43              | 15                        | \$500k                  |
|                    |                   |              | \$2,500,000         | 70%/70%          | 760          | 43              | 24                        | \$500k                  |
|                    |                   |              | \$2,500,000         | 65%/65%          | 740          | 43              | 24                        | \$500k                  |
|                    | Second Home       | 1 Unit       | \$1,000,000         | 70%/70%          | 740          | 43              | 12                        | \$350k                  |
|                    |                   |              | \$1,000,000         | 65%/65%          | 720          | 43              | 12                        | \$350k                  |
|                    |                   |              | \$2,000,000         | 70%/70%          | 760          | 43              | 15                        | \$350k                  |
|                    |                   |              | \$2,000,000         | 65%/65%          | 740          | 43              | 15                        | \$350k                  |
|                    |                   |              | \$2,500,000         | 65%/65%          | 780          | 43              | 24                        | \$350k                  |
|                    |                   |              | \$2,500,000         | 60%/60%          | 760          | 43              | 24                        | \$350k                  |

## 2.2 Eligible Loan Product Types and Requirements

### 2.2.1 Product Types

The following product types are eligible for purchase by the Firm:

| Product Types      | Amortization Type |
|--------------------|-------------------|
| 30 Year Fixed Rate | Fully Amortizing  |

### 2.2.2 Qualifying Rates

The qualifying interest rate for each applicable product type is set forth below:

| Product Types      | Interest Rate |
|--------------------|---------------|
| 30 Year Fixed Rate | Note Rate     |



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### 2.2.3 Additional Requirements for All Product Types

The following additional requirements also apply to each applicable loan product type.

|  |   |
|--|---|
| Underwriting   | All loans must be manually underwritten and fully documented.<br>All loans required to comply with TILA, must comply with TILA and its implementing Regulation Z, including but not limited to 12 CFR §1026.43 and Appendix Q thereto, must be followed, as well as every other applicable federal, state, or local law, regulation, rule or ordinance, as applicable. Each loan purchased by the Firm must be a “qualified mortgage” within the meaning of § 1026.43(e)(2) of Regulation Z (without reference to §1026.43(e)(4), (5), (6) or (f) of Regulation Z) and qualify for the safe harbor or presumption of compliance for higher-priced covered transaction set forth in §1.026.43(e)(1)(i) or (ii), respectively, of Regulation Z. |
| Assumption   | No assumability   |
| Minimum loan size  | One (1) dollar more than the current Agency conforming loan amount. For the avoidance of doubt, the Firm will purchase loans which are less than the applicable limit for loans located within a high-cost area as published on the Agency websites and FHFA website.   |
| Minimum down payment   | <b>5% from borrower’s own funds</b>   |
| First-time homebuyers (defined as not having had an ownership interest in real estate in the 3 year period preceding the date of the loan) | Maximum loan amount of \$1,500,000<br>Minimum of eighteen (18) months of reserves<br>Purchase of primary residence only   |
| Ineligible product attributes  | Refinancing a Non-Standard Mortgage into Standard Mortgage as set forth in 12 CFR §1026.43(d) (ATR-Exempt) Loans that do not meet the definition of Qualified Mortgage under 12 CFR §1026.43, provided such loan is required to comply with TILA<br><br>Loans with negative amortization Interest-only loans<br>Loans with graduated payments Loans with balloon payments Loans with prepayment penalties Recasting or re-amortized loans Temporary buydown loans   |
| Ineligible property types and attributes   | <ul style="list-style-type: none"> <li>• Time-Shares</li> <li>• Condotels</li> <li>• Houseboats</li> <li>• Agricultural property</li> <li>• Agricultural zoned properties &gt; five (5) acres</li> </ul>  |



|   |  |
|---|--|
| <p>Ineligible property types and attributes</p> | <p>Units or properties that do not conform to zoning ordinances, unless the loan file contains appropriate evidence that the use of the property is grandfathered or any re-build or other improvement is permitted</p> <ul style="list-style-type: none"> <li>• Mixed-use properties</li> <li>• Commercial properties</li> <li>• Manufactured housing or mobile homes (built on a permanent chassis)</li> <li>• Any property located in Guam, Puerto Rico and the U.S. Virgin Islands</li> <li>• Any property located in lava zones three (3) through nine (9) on the island of Hawaii</li> <li>• Undeveloped lots</li> <li>• Non-Warranted condos</li> <li>• Texas cash out refinance loans</li> <li>• Properties with acreage greater than ten (10) acres</li> <li>• Any property with an outstanding HERO or PACE loan secured by such property</li> </ul> <p>Please refer to Section 3.3 of this PEG for the complete list of ineligible properties</p> |
| <p>Borrower Eligibility</p>                     | <ul style="list-style-type: none"> <li>• Limited Liability Companies, Corporations and Partnerships are ineligible</li> <li>• Irrevocable Trusts, Land Trusts, Bank Trusts, Illinois Land Trusts, Qualified Personal Residence Trusts, Blind Trusts and Real Estate Trusts are ineligible</li> <li>• Non-occupant co-borrowers contributing income are ineligible</li> <li>• Borrowers with diplomatic immunity are ineligible</li> <li>• Permanent resident aliens are eligible</li> <li>• Non-permanent resident aliens are eligible</li> <li>• Foreign nationals are ineligible</li> <li>• Please refer to Sections 4.4 and 4.5 of this PEG for more details on eligible borrowers.</li> </ul>  |
| <p>Declining Markets Reduction</p>              | <ul style="list-style-type: none"> <li>• For any property that is determined to be located within a declining market, the maximum LTV/CLTV for such product and program shall be reduced by at least ten percent (10%) and the maximum LTV/CLTV applicable to any product and program shall be seventy percent (70%).</li> </ul>   |

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## 2.3 Loan Eligibility

### 2.3.1 Multiple Mortgages

The Firm may purchase multiple loans related to the same borrower; provided, that the following conditions are satisfied: (i) each borrower and each loan meets the specified eligibility and underwriting guidelines on an individual basis; (ii) each additional loan meets its reserve requirements on an individual basis; and (iii) each additional loan requires an additional six (6) months of reserves. For all loans, the maximum number and total loan exposure of all 1–4 unit financed residential properties is limited to the following:

| Criteria  | Limit       |
|---|-------------|
| Number of 1–4 unit financed properties, including the borrower’s primary residence and subject collateral (which is limited to 1–2 units), regardless of Seller | 4           |
| Maximum total loan exposure of all 1–4 unit properties financed, including the subject collateral (which is limited to 1–2 units), regardless of Seller         | \$5 Million |

### 2.3.1 Interested Party Contributions

Any contributions on the loan must be from Interested Parties (as defined herein) and are limited to six percent (6%) of the sales price of the mortgaged property and must be applied to closing costs and prepaid items only. Interested Parties are defined as individuals who may benefit from the sale of the property or individuals who would may benefit from the sale of the property at the highest price possible; such persons may be, but are not limited to, the property seller, the builder/developer, the real estate agent or broker, or an affiliate of any of the foregoing.

**Financing Concessions:** Contributions in the form of financing concessions may take the form of; origination fees, discount points, commitment fees, appraisal costs, transfer taxes, stamps, attorney’s fees, survey charges, title insurance premiums or charges, real estate tax service fees, and funds to subsidize a permanent interest rate buydown. Financing concessions may also include prepaid items, including:

- Up to thirty (30) days of interest charges;
- Real estate taxes covering any period after the settlement date, only if escrowed;
- Up to fourteen (14) months of hazard insurance premiums; and
- Up to twelve (12) months of homeowner association (“HOA”) dues covering any period after the settlement date.

**Sales Concessions:** Contributions that exceed the limits set forth in the above table are considered Sales Concessions. Contributions such as vacations, furniture, automobiles, securities or other “giveaways” granted by any Interested Party to the transaction are also considered Sales Concessions. The property’s sales price must be adjusted downward to reflect the amount of any Sales Concessions, and the maximum LTV/CLTV ratios must be recalculated using the lower of the (i) reduced sales price or (ii) appraised value.



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The appraisal report must include the effect of any financing or sales concessions on the final estimate of market value for the subject property. Comparable sales that are impacted by financing or sales concessions must be adjusted to reflect the market at the time of the comparable sale, regardless of whether the subject property is being sold with similar financing. If the appraisal report does not clearly and adequately reflect the presence and effect of any financing and/or sales concessions, the cost of

these contributions must be deducted from the value provided by the appraiser. The LTV/CLTV ratio must be calculated using the lower of the (i) reduced appraised value or (ii) purchase price.

All Interested Party contributions must be documented on the Closing Disclosure.

**Payment Abatements:** A payment abatement offered by an Interested Party to the borrower to pay or reimburse a certain number of monthly payments on the borrower's behalf is considered a financing concession. These payments may cover all or a portion of the principal, interest, taxes, insurance and any other assessments. Funds for payment abatements are typically provided to a Seller or a third-party to be distributed over the term of the abatement period or credited against the borrower's future obligations. The Firm will not purchase loans with payment abatements, regardless of whether such payment abatements disclosed on the Closing Disclosure. The payment of HOA fees, however, will not be considered an abatement unless the payment of HOA fees extends for more than twelve (12) months. The payment of HOA fees for twelve (12) months or less will be considered an Interested Party contribution and will be limited to the maximum contribution limits described above.

### 2.3.2 Credit History Requirements

The Firm requires that the applicable borrower's credit history meet the following requirements:

- Borrowers must not have been named debtors in any bankruptcy within the immediately preceding seven (7) years;
- No foreclosure or deed-in-lieu/short sale filed or previously reported on the credit report within the immediately preceding seven (7) years;
- No more than 0x30 mortgage delinquencies within the past twenty-four (24) months, or if the borrower did not have a mortgage at the time of the application, no more than 0x30 rental delinquencies within the past twenty-four (24) months;
- No existing loan can be currently delinquent;
- All open judgments, garnishments, and liens (including tax liens) that may adversely impact the lien position of the mortgage must be paid off at, or prior to, closing;
- Accounts that are reported as past due, which are not reported as collection accounts, must be brought current;
- Collection and charge-offs accounts which exceed \$1,000.00 individually, or if multiple collection and charge-off accounts, which in aggregate exceed \$2,500.00, must be paid in full prior to or at closing;
- Derogatory credit information for all borrowers on the application must be considered and a satisfactory letter of explanation provided by the borrower; and
- All judgments and/or liens that appear on the title report relating to the mortgaged property must be cleared at or before closing to assure appropriate lien positioning.



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Refer to Section 4.15 of this PEG for additional requirements relating to the analysis of credit reports.

### **2.3.3 Minimum Credit Score Requirements**

Minimum credit score requirements are described in Section 2.1 of this PEG. Refer to Section 4.16 of this PEG for the methodology to determine the representative/qualifying credit score for each borrower and other restrictions and requirements with respect to credit scores.

### **2.3.4 Reserve Requirements**

Asset reserves are the borrower's accessible and liquid cash position (or near liquid assets) after the loan transaction has closed and funded. To be considered an asset reserve, the cash and other liquid assets must be easily converted to cash.

To determine the amount of reserves, the borrower's monthly housing expense is calculated, which is the sum of the: (i) principal and interest; (ii) hazard and flood insurance premiums; (iii) real estate taxes; ground rent; (iv) special assessments; any owners' association dues (including utility charges that are attributable to the common areas, but excluding any utility charges that apply to the individual unit); and (v) any monthly Co-op corporation fee (less the pro rata share of the master utility charges for servicing individual units that is attributable to the borrower's unit) ("PITIA"). Asset reserves are measured by the number of months of PITIA that a borrower could pay using his or her financial assets.

When a mortgage is secured by a second home or an investment property, the PITIA for the borrower's mortgage which is their primary residence is considered part of the borrower's monthly housing expense, since it is an existing debt obligation.

Borrowers with multiple loans must meet the reserve requirements for each individual loan basis and each additional loan must have an additional six (6) months of reserves.

### **2.3.5 Arms' Length Transactions**

Except as indicated below and as set forth in Section 2.3 of this PEG, if a direct relationship exists between or among the parties, the transaction shall be considered a non-arm's length transaction and the related loan is not eligible for sale to the Firm. Notwithstanding the aforementioned, the following non-arm's length transactions are eligible provided that such transactions and the related circumstances are properly documented and evidenced in the loan files provided to the Firm:

- Sales or transfers between members of the same family and evidence that the transaction is not due to any adverse circumstances;
- Property seller acting as his or her own real estate agent;
- Borrower acting as his or her own real estate agent;
- Borrower is an employee of the originating lender and such lender has an established employee loan program (evidence of the employee program must be included in the loan file); and
- Borrower purchasing from his or her current landlord (cancelled checks or bank statements required to verify satisfactory pay history between borrower and landlord).

### **2.3.6 Foreclosure Bailout**

A foreclosure bailout is a refinance or purchase transaction where the true purpose of the loan is to refinance an



The power of yes.

existing loan to the borrower secured by the mortgaged property that is in foreclosure. Such transactions are ineligible for purchase by the Firm.

### 3. General Loan Eligibility

#### 3.1 Transaction Types

All loans submitted to A&D Mortgage for purchase must qualify as one of the following types of transactions and meet the eligibility guidelines set forth in this Section 3. All loans must adhere to Fannie Mae and Freddie Mac (Agency) guidelines.

##### 3.1.1 Purchase Money Transactions

Purchase money transactions involve first lien mortgage transactions in which the loan proceeds are used to purchase the subject property as evidenced by a sale and purchase agreement executed by the borrower and the property seller. The payoff of an installment loan land contract is not eligible.

If the Seller has taken title to the subject property within ninety (90) days prior to the date of the sales contract, the following requirements apply:

- The property seller on the purchase contract is the owner of record;
- A second full appraisal is required; and
- Increases in property value should be documented with commentary from the appraiser.

Loans that are bank or relocation sales are exempt from the above requirements.

Personal property may not be included in the purchase agreement/sales contract. Personal property items should be deleted from the sales contract or reasonable value must be documented and the sales price adjusted. Items that are customary to residential real estate transactions such as lighting fixtures, kitchen appliances, window treatments and ceiling fans are not considered personal property for purposes of this Section 3.1.1.

##### 3.1.2 Refinance Transactions

A refinance transaction typically involves the payoff of an existing mortgage lien with the proceeds of a new first lien mortgage or where the borrower obtains a mortgage for a property that is currently owned free and clear of any encumbrances. The payoff of an installment loan land contract is not eligible.

The Firm accepts two types of first lien mortgage refinance transaction loans:

- **Rate and Term Refinance:** A transaction that enables a borrower to pay off his or her existing mortgage by obtaining a new first lien mortgage that is secured by the same property at a rate and term that is different than the original mortgage.
  - A minimum of six (6) months of seasoning from the note date of the new loan is required if the previous financing was a cash-out refinancing (including the payoff of a non-seasoned subordinate lien).
  - The loan amount may also include closing costs, points, prepaid items (where applicable by law), subordinate mortgage liens if the documented proceeds of the entire amount of the subordinate financing were used to acquire the property, and incidental cash to the borrower not to exceed



The power of yes.

the lesser of; (i) one percent (1%) of the new loan amount or (ii) \$2,000.00.

- Fees associated with closing a zero balance subordinate mortgage lien is allowed if the fees are reasonable and of a nominal amount.
- Proceeds of the new loan may be used to pay off a loan which is a non-first lien mortgage loan, provided such mortgage has been a perfected lien on the subject property for a
- minimum of twelve (12) months and there were no draws exceeding \$2,000 within the past twelve (12) months from the date of the loan application. The withdrawal activity with respect to a subordinate lien must be documented with a transaction history of the related line of credit.
- Properties listed for sale are ineligible for refinancing unless the listing was withdrawn or expired prior to the date of application.
- **Cash-out Refinance:** Transactions in which the borrower, in addition to paying off any existing mortgage debt, borrows additional amounts against the equity in the property.
  - The proceeds from a cash-out refinance transaction may include the payoff of the existing first mortgage, closing costs, points, prepaid items (where permitted by applicable law), the amount to satisfy any outstanding subordinate mortgage liens of any age (including home improvement loans, home equity lines of credit (HELOCs), and second mortgages obtained for the purpose of taking equity out of the property, even if a portion of the subordinate lien was used to purchase the property), and additional cash the borrower may use for any purpose.
  - A minimum of twelve (12) months of seasoning from the note date of the new loan is required for inherited properties.
  - A minimum of six (6) months of seasoning from the note date of the new loan is required. If the property is owned free and clear of any lien and the six (6) month seasoning period has not been met, then the loan may be eligible for a Delayed Financing Refinance as set forth below.
  - The following guidelines shall apply to cash-out refinance transactions where the borrower is paying off a loan from a pledged asset/retirement account loan, secured loan, unsecured family loan or replenishing business funds used to purchase the property:
    - Cash-out limitation is waived if the previous transaction was a purchase.
    - The minimum six (6) month seasoning requirement is waived.
    - Funds used to purchase the subject property must be documented and sourced.
    - HUD-1 or Closing Disclosure for the purchase transaction must reflect payoff or paydown of pledged asset/retirement account loan, secured loan, unsecured family loan or business asset account. If cash-out proceeds exceed payoff of loans, excess cash must meet cash-out limitations.
    - The purchase of the subject property must have been an arm's length transaction.
    - Investment properties are ineligible.

The following additional considerations apply with respect to loans submitted for purchase by the Firm:

- **Refinance to Buy Out an Owner's Interest:** Transactions where one owner is required to buy out the interest of another owner (for example, as a result of a divorce settlement or dissolution of a domestic partnership) may be considered a rate and term refinance transaction if the following conditions are satisfied:



The power of yes.

- The property must have been owned jointly for at least twelve (12) months preceding the date of the mortgage application;
  - All parties must have signed a valid and binding written agreement that states the terms of the property transfer and disposition of proceeds;
  - The borrower who acquired sole ownership of the property must have received no cash from the loan proceeds; and
  - The party who is “buying out” the other party’s interest must qualify individually for the loan under the eligibility requirements set forth in this PEG.
- **Continuity of Obligation:** For a refinance transaction to be eligible, there must be a continuity of obligation of the outstanding lien that will be paid through the refinance transaction. Continuity of obligation is met when any one of the following exists:
    - At least one borrower is obligated on the new loan who was also a borrower obligated on the existing loan being refinanced.
    - The borrower has been on title and residing in the property for at least twelve (12) months and has either paid the mortgage for the last twelve (12) months or can demonstrate a relationship (relative, domestic partner, etc.) with the current obligor.
    - The loan being refinanced and the title to the property are in the name of a natural person or a limited liability company (LLC) as long as the borrower owns at least 25% of the LLC prior to transfer. Transfer of ownership from a corporation to an individual does not meet the continuity of obligation requirement; or
    - The borrower has recently been legally awarded the property (divorce, separation or dissolution of a domestic partnership).
- **Delayed Financing Refinance:** Delayed financing refinances in which the borrowers purchased the subject property for cash within ninety days (90) from the date of the application are eligible for purchase. Cash back to the borrower in excess of the original purchase price or appraised value (whichever is less) is not allowed. Delayed financing refinances are underwritten as rate and term refinances and are not subject to cash-out refinancing program limitations. Property may not be located in Texas. The original purchase transaction must be documented by a Closing Disclosure confirming that no mortgage financing was used to obtain the subject property.
- **Refinancing of Modified Loans:** The refinancing of a previously modified loan is permitted subject to the following requirements:
    - Only lender initiated modifications on owner occupied properties are permitted with satisfactory proof that such modification was not necessitated by a distress situation; and
    - The borrower must have made forty-eight (48) consecutive monthly payments on a timely basis on the modified loan before closing the refinance loan.





The power of yes.

Modified loans in which the terms of the original transaction have been modified to result in a partial or absolute forgiveness of debt or a restructuring of debt are not eligible:

- Forgiveness or a portion of principal or interest in either the first or second mortgage;
  - Application of a principal curtailment on behalf of the investor to simulate principal forgiveness; or
  - Conversion of any portion of the original mortgage debt to a subordinate mortgage or conversion of any portion of the original mortgage debt from secured to unsecured debt.
- **Construction Loan Refinancing:** Construction loan refinances are eligible as rate and term refinances and must meet the following criteria:
    - Single closing construction permanent loan refinances that include a modification are ineligible.
    - Borrower must have held title to the lot for a minimum of six (6) months prior to the closing of the permanent loan.
    - The LTV will be based on the current appraised value if the borrower has held title to the lot for twelve (12) or more months prior to the closing date of the permanent loan.
    - If the lot was acquired less than twelve (12) months before the closing date of the permanent loan, the LTV will be based on the lesser of (i) the original purchase price of the lot plus the total acquisition costs (sum of construction costs) or (ii) the current appraised value of the lot plus the total acquisition costs.
    - Appraiser's final inspection is required.
    - A certificate of occupancy is required from the applicable governing authority. If the applicable governing authority does not require a certificate of occupancy proof must be provided.
    - Construction loan refinances in which the borrower has acted as builder or general contractor are not eligible for purchase.

### 3.1.3 Subordinate Financing

- New subordinate financing is permitted up to the maximum allowable LTV/CLTV for each loan type and program. Only institutional subordinate financing is permitted.
- The principal balance of a HELOC used in the determination of LTV/CLTV will be based upon the fully drawn balance.
- Subordination of an existing loan is permitted up to the maximum allowable LTV/CLTV for each loan type and program.
- Subordinate liens must not have negative amortization features, prepayment penalties or balloon payments due within five (5) years of the loan closing date.
- In cases in which a HELOC is resubordinated to the subject mortgage, the monthly amount listed on the credit report for such HELOC will be used. If no monthly payment amount is shown on the credit report, a one percent (1%) minimum payment of the maximum line amount will be used for qualifying. A credit report supplement showing the minimum



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monthly payment is also acceptable. If a HELOC has a zero balance and no draws within twenty-four (24) months of application, no payment need be included in DTI. Withdrawal activity must be documented with a transaction history for the line of credit.

### 3.2 Eligible Properties

A&D Mortgage will consider purchasing loans where the related property qualifies as one of the following types:

**Single Family Dwelling:** A single-family residence is typically a residence designed for occupancy by an individual or family. The dwelling may or may not have common or coincidental exterior limits with another residence. The dwelling is located on an individual lot. These properties may be detached, semi-detached or attached dwellings.

**Multi-Family Dwelling:** These are attached units designed to be occupied by two, three, or four families (one family for each unit). Generally, these buildings have attached walls, but may be separate buildings. Separate buildings are eligible provided the buildings are a part of a single deed (legal description). The dwelling(s) may be located on an individual lot within a subdivision. Duplex structures are examples of 2-unit multi-family dwellings.

**Planned Unit Development (“PUD”):** A PUD is a real estate development formed according to a recorded declaration and other constituent documents. Each unit owner has title to a residential lot and dwelling and has an easement to use the project’s common areas. The common areas are owned, administered, and maintained by an owners’ association, which levies monthly charges against the lot owners for expenses. Membership in the owners’ association is transferred when title on the individual units is transferred. The Firm will not purchase a loan with respect to a PUD if such project is one of the types of ineligible projects described in Section 6 of this PEG. Properties located in PUDs must follow the eligibility guidelines for 1–2 units and must meet Agency guidelines for eligibility.

**Condominium:** A condominium is a real estate project formed according to state condominium statutes and has a recorded declaration and other constituent documents. The project contains two or more units that may or may not be attached. Each unit owner has title to a unit in the building and undivided interest in the common areas of the condominium project. The common areas are owned, administered, and maintained by an owners association that levies monthly charges against each unit owner. When the title information indicates the borrower owns the land, the property is not a condominium. Condominium units that are detached (site condominiums) must meet the requirements for detached condominiums.

Refer to Section 6 of this PEG for additional requirements specific to condominium projects. The Firm will not purchase a loan related to a condominium project if the condominium is one of the types of ineligible projects described in Section 6 of this PEG.

**Cooperative:** A cooperative is a multi-family residential building that has multiple owners, in which a corporation holds title to the property. The property that secures the lien may be a cooperative unit that is represented by shares of stock, a membership certificate, or other contractual agreement in a cooperative housing corporation. The cooperative ‘share’ loan finances the purchase (or refinancing) of the borrower’s ownership interest and the accompanying occupancy rights in a cooperative housing corporation. Unless otherwise indicated in this PEG, cooperative loans must comply with Agency guidelines.

The corporation conveys title to a unit and the unit’s individual owner by issuing an assignment of an occupancy agreement and a pledge of cooperative shares and a proprietary lease. Loans secured by a cooperative must have the entire loan amount recognized by the cooperative board/corporation.



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A cooperative 'share' loan must be a lien that has priority over all other liens against the borrower's interest in the property. The Firm will not consider loans on a Cooperative if the Cooperative project is one of the types of ineligible projects described in Section 6 of this PEG.

A&D Mortgage will only purchase loans related to cooperative units located in New York in the five boroughs of New York City and the counties of Nassau, Rockland, Suffolk and Westchester.

Accordingly, the Firm will not purchase loans related to cooperative units located in any other jurisdictions, other than the locations set forth in the preceding sentence. In addition, only cooperatives that meet Agency cooperative project standards will be eligible for purchase by the Firm. The Firm will not purchase a cooperative 'share' loan that is subject to subordinate financing.

All Cooperative projects require a full lender review and must consist of five (5) or more units.

A flip tax (also known as a transfer fee) may be required to be paid upon sale of the cooperative unit. Flip tax/transfer fees are typically stated in the sales contract and noted on the appraisal. If the cooperative unit is subject to a flip tax that exceeds three percent (3%) of the appraised value, the flip tax must be deducted from the lesser of the purchase price or appraised value of the unit to determine LTV on purchase transactions. The Firm will not purchase a cooperative 'share' loan where the value of the flip tax is not stated as a value or percentage.

**Properties with Large Acreage:** These are eligible property types for all products and transactions provided the property is non-agricultural, not zoned as rural, and no larger than ten (10) acres. However, it must be determined that the property is legal, conforming, and relatively common for the area. The appraisal must indicate that the current use of the property is "Highest and Best", and includes at least one comparable similar in style, size, design and acreage (but no more than ten (10) acres).

### 3.3 Ineligible Properties

Loans secured by any of the following property types are ineligible for purchase by the Firm:

- Time-Shares
- Condotels
- Houseboats
- Agricultural property (working farm or ranch) regardless of acreage
- Agricultural zoned properties
- Units or properties that do not conform to zoning ordinances, unless the loan file contains appropriate evidence that the use of the property is grandfathered or any re-build or other improvement is permitted
- Mixed-use properties
- Commercial properties
- Manufactured housing or mobile homes (built on a permanent chassis)
- Properties not located within the United States of America and the District of Columbia ("U.S.") (not



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including any territory of the U.S. such as Guam, Puerto Rico or the U.S. Virgin Islands)

- Any property located in lava zones one (1) or two (2) on the island of Hawaii
- Undeveloped lots
- Non-Warranted condominiums
- Condominiums with HOAs in litigation
- Properties on Indian Reservations
- Properties with acreage greater than ten (10) acres
- Properties, other than cooperatives and condominiums, with less than seven-hundred fifty (750) square feet
- Cooperatives and condominiums with less than four-hundred (400) square feet
- Any property with an outstanding HERO or PACE loan secured by such property
- Properties with income producing attributes
- Log homes
- Geothermal homes
- Unique properties
- Properties held as a leasehold

### **3.4 Loan to Value (“LTV”) / Combined Loan to Value (“CLTV”) Criteria**

LTV is the ratio of the loan amount to the property value (calculated as described below). When the borrower has subordinate financing, the CLTV of the junior lien(s) and first lien is also considered when determining if the loan meets the requirements of the product or program parameters.

The property value used to calculate the LTV/CLTV ratios depends on the loan purpose as follows:

- For purchase transactions, the property value is the lesser of (i) the purchase price or (ii) the current appraised value.
- For refinance transactions, the property value is the current appraised value for properties purchased more than six (6) months from the closing date of the new loan or for inherited properties. Otherwise, the property value is the lesser of (i) the original sales price or (ii) the current appraised value. The original sales price will be determined from the Closing Disclosure from the preceding subject acquisition transaction.

The property value calculations described above may be different for certain loans depending on the length of ownership, among other factors. For the avoidance of doubt, if there are two appraisals, the appraisal with the lower current appraised value shall be used in determining which property value is used to calculate the LTV/CLTV for the loan. Moreover, if the appraisal is used, any seller or builder concessions shall be subtracted from the appraised value prior to calculating the LTV/CLTV.

### 3.5 Escrows

Escrows may be established for funds collected by the originator or servicer. In general, loans with escrow accounts must comply with the terms and limits set forth in the Real Estate Settlement Procedures Act and its implementing Regulation X, 12 C.F.R. §1024.17, and all other applicable laws of the originator, Seller, and the loan. The use of the funds from an escrow account may include, but are not limited to: taxes, insurance (hazard, flood, and mortgage) premiums, HOA fees in the jurisdictions where the use of the escrow account for such fees is legally permitted and otherwise advisable, special assessments, ground rents, water, sewer, and other governmental impositions. Loans (including, without limitation, loans where the related properties are located in jurisdictions where a lien in favor of a HOA is superior to the lien of the related mortgage may be created through the non-payment of related HOA fees) without escrows established are subject to a price adjustment. At a minimum, taxes must be escrowed in order to avoid the loan level price adjustment.

**Escrow Holdbacks:** Any inadequacies determined by the appraisal must be remedied prior to closing. Escrow holdbacks are not permitted.

**Escrow for HPMLs:** For any loan that is determined to be a Higher Priced Mortgage Loan (HPML) under TILA and its implementing regulation, 12 C.F.R. §1026.35, as may be amended from time to time, an escrow account must be established for the borrower prior to the consummation of the loan for the payment of property taxes and premiums for mortgage-related insurance, among other fees and charges. Notwithstanding the prior statement, an escrow account is not required for transactions that are otherwise exempt under 12 C.F.R. §1026.35(b)(2), though such loan may be subject to loan level price adjustments if the loan is not escrowed for tax payments.

## 4. General Underwriting Principles

### 4.1 Borrower's Age Requirements

The borrower must have reached the age at which the mortgage note can be legally enforced in the jurisdiction in which the property is located. The borrower must have capacity to enter into a legally binding contract. There is no maximum age limit for a borrower. All borrowers must have a valid social security number.

### 4.2 Co-signers, Guarantors, or Non-Occupant Co-Borrowers

#### 4.2.1 Introduction

Co-signers and guarantors are non-occupying credit borrowers who:

- Do not have an ownership interest in the property as indicated on the title;
- Sign the note, but not the security instrument (subject to Spousal Property Rights and Non-Borrowing Spouse under Section 4.3 of this PEG);
- Have joint liability for the loan with the borrower; and
- Do not have an interest in the sales transaction of the property, such as the property seller, the builder, or the real estate broker.

The Firm may purchase loans involving co-signers, guarantors, and non-occupant co-borrowers under the following conditions:

- Credit score qualification will be based on Section 4.16.



The power of yes.

- To be considered a primary residence, the occupant must be included as a borrower for the qualification of the loan. If the occupant of the property is not a borrower, such loan will be considered a loan on a second home or investment property.
- A familial relationship is not required, provided the transaction is considered an arms-length transaction and all the requirements of Section 2.1 are met.
- So long as one of the previous owners is on the loan application the continuity of obligation requirement on a refinance transaction is considered acceptable.

#### **4.2.2 Co-Borrowers**

Eligibility for qualifications: Two or more non-married borrowers or two relatives living in the same residence applying for joint credit on a single Form 1003. The Firm will consider purchasing loans with four (4) or fewer co-borrowers.

#### **4.2.3 Power of Attorney**

Another individual may act on behalf of a borrower at closing if the following conditions are satisfied:

- The person acting as attorney-in-fact should have a familial or fiduciary relationship with the borrower;
- The power of attorney must be specific to the transaction and must reference the address of the subject property (a durable power of attorney is not acceptable);
- The power of attorney must be notarized, the name on the power of attorney must match the name of the person on all applicable loan documents, and the power of attorney must be dated such that it was valid at the time the loan documents were executed;
- If applicable law requires the power of attorney to be recorded for enforcement or foreclosure purposes, the power of attorney must be recorded with the applicable recording office;
- In a first mortgage transaction, the title policy must not contain any exceptions based on the use of such power of attorney; and
- A power of attorney is acceptable for a refinance loan only if it specifically makes reference to the terms of the refinance transaction.

A power of attorney will not be accepted if the property is held in a revocable trust or any other unique vesting type as detailed in this PEG.

### **4.3 Spousal Property Rights**

#### **4.3.1 Introduction**

Certain states require spousal signatures on all transactions whether such transaction is a purchase, refinance or second mortgage transaction in order to protect a Seller's rights as a creditor. The spouse or domestic partner of any person who has an interest in the property is required to sign the security



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instrument if his or her signature is necessary under applicable law to waive any property rights he or she has by virtue of being the borrower's spouse or domestic partner. Individual situations should follow the direction and instruction of the issuing title policy provider, as signatory requirements can vary.

#### **4.3.2 Non-Borrowing Spouse**

All owners of the homestead and their spouses must consent to the extension of credit by executing the deed of trust. Non-borrowing spouses, regardless of their ownership interest in the homestead property, have the right to cancel a loan transaction. The Firm will accept either the appropriate federal "Notice of Right to Cancel" or a Texas specific "Notice of Right to Cancel", as applicable; provided, that such notice is properly and validly executed.

### **4.4 Vesting Types**

#### **4.4.1 Introduction**

A&D Mortgage will accept various vesting types for eligible properties. Beyond the standard vesting types of individual, joint tenants and tenants in common, the following vesting types, depending on the selected loan product may be accepted:

- **Revocable Trusts**

The Firm does not accept the following types of borrowers and ownership/vesting types: irrevocable trusts, land trusts, bank trusts, qualified personal residence trusts, blind trusts, real estate trusts, limited liability companies, corporations, partnerships or life estates.

#### **4.4.2 Revocable Trusts**

An intervivos (living) revocable trust is a trust that (i) an individual creates during his or her lifetime, (ii) becomes effective during its creator's lifetime, and (iii) can be changed or canceled by its creator at any time, for any reason, during that individual's lifetime. The Firm will accept vesting in an intervivos revocable trust for a first lien mortgage that is secured by a one-family primary residence, a second home or investment property so long as the following eligibility criteria is satisfied.

- The intervivos revocable trust must be established by a natural person. It may be established solely by one individual or jointly by more than one individual.
- No intervivos revocable trusts that permit powers of attorney will be permitted.
- A copy of the fully executed trust agreement with all amendments must be provided to verify the terms of the trust.
- An intervivos revocable trust will be considered eligible vesting if it meets the following requirements:
  - The trust must be established by a written document during the lifetime of the individual establishing the trust, to be effective during his or her lifetime;
  - The trust must be one in which the individual establishing the trust has reserved to himself or

- o herself the right to revoke the trust during his or her lifetime;
  - o The primary beneficiary of the trust must be the individual establishing the trust. If the trust is established jointly by more than one individual, there may be more than one primary beneficiary; provided, that the income or assets of at least one of the individuals establishing the trust will be used to qualify for the mortgage. For owner-occupied properties, at least one individual establishing the trust must occupy the security property and sign all applicable mortgage loan documents;
  - o The trust document must name one or more trustees to hold legal title to, and manage, the property that has been placed in the trust. The trustees must include either the individual establishing the trust (or at least one of the individuals, if there are two or more) or an institutional trustee that customarily performs trust functions in (and is authorized to act as trustee under the laws of) the relevant state; and
  - o The trustee(s) must have the power to mortgage the security property for the purpose of securing a loan to the party (or parties) who are the “borrower(s)” under the mortgage or deed of trust note.
  - o The mortgage and trust documents must meet Agency eligibility criteria including title and title insurance requirements, as well as applicable state laws that regulate the making of loans to inter vivos revocable trusts.
- The property must be a one-family primary residence or a second home;
  - Title to the mortgaged property may be vested: (i) solely in the trustee(s) of the inter vivos revocable trust, or, (ii) jointly in the trustee(s) of the inter vivos revocable trust and in the name(s) of the individual borrower(s), or, (iii) in the trustee(s) of more than one inter vivos revocable trust;
  - The title insurance policy (or ownership report, where applicable) must ensure full title protection to the Seller and must state that title to the mortgaged property is vested in the trustee(s) of the inter vivos revocable trust. Moreover, the title insurance policy must not list any exceptions with respect to the trustee(s) holding title to the mortgaged property or to the trust;
  - Title held in the trust must not diminish the mortgagee’s rights as a creditor, including the right to have full title to the security property vested in the mortgagee should foreclosure proceedings have to be initiated to cure a default under the terms of the related mortgage; and
  - The mortgage must be underwritten as if the individual establishing the trust (or at least one of the individuals, if there are two or more) were the borrower (or a co-borrower).

#### **4.4.2 Bank Trusts or Illinois Land Trust**

A Bank Trust, also known as an Illinois Land Trust, is a simple trust which vests in a trustee the title to the property and the power to convey or deal with the property at the direction of the trust beneficiary. The beneficiary retains the power to use, convey, or manage the land and holds any other number of rights. Bank Trusts and Illinois Land Trusts are ineligible.

## **4.5 Resident and Immigration Status**

### **4.5.1 Eligible Borrowers**





The power of yes.

Lawful permanent or nonpermanent residents of the U.S. are eligible borrowers under the same terms - mortgage product, transaction type, occupancy status, and LTV ratios - that are available to U.S. citizens.

#### **4.5.2 Permanent Resident Aliens**

Permanent resident aliens must present an Alien Registration Receipt Card (U.S. Citizenship and Immigration Service ("USCIS") Form I-551; Green Card).

#### **4.5.3 Non-Permanent Resident Aliens**

Non-permanent resident aliens must be employed in the U.S. and any borrowers with diplomatic immunity are not eligible. Non-permanent resident aliens must have a valid social security number. A maximum LTV/CLTV of seventy-percent (70%) is required for all loan products and programs applicable to a borrower that is a non-permanent resident alien and property types are limited to owner-occupied, single-family primary residences only.

Non-permanent resident aliens must have a documented residency, employment period and credit history within the U.S. of at least two (2) years prior to the consummation of the loan. All qualifying income must be from U.S. sources. A non-permanent resident alien must have valid permission to work within the U.S. for a period of at least three (3) years after the consummation of such loan and the possibility of extending such permission to work within the U.S. must not have been exhausted at the consummation of the loan. Funds to close a loan must be deposited in a U.S. financial institution and no closing funds are permitted from outside the U.S.

Additionally, a non-permanent resident alien must have provided one of the following documents (along with any other attendant document or exhibit which is customary for proof of employment and valid residency) set forth below:

- Any foreign borrower in which U.S. earned income is used in qualifying must have evidence of appropriate work authorization. There are a variety of work and temporary visa classifications, and most common types of visas are tied to a sponsoring institution or employer. Borrowers with one of the following Visa status are generally considered lawful non-permanent resident aliens:
  - E Series (E-1, E-2, E-3)
  - G Series (G-1, G-2, G-3, G-4, G-5)
  - H Series (H-1B, H-1C)
  - L Series (L-1, L-1A, L-1B, Spouse L-2 with EAD)
  - NATO Series (NATO 1 – 6)
  - O Series (O-1)
  - TN-1, Canadian NAFTA visa
  - TN-2, Mexican NAFTA visa

#### **4.5.4 Foreign Nationals**

Foreign nationals are not eligible.



The power of yes.

## 4.6 Occupancy Status

### 4.6.1 Introduction

The occupancy of the loan's subject property must meet one of the following definitions:

### 4.6.2 Primary Residence Properties

A primary residence is a property that the borrower occupies as his or her primary residence. If there are multiple borrowers for a regularly amortizing mortgage, only one borrower needs to occupy and take title to the property and execute the note and the security instrument. A borrower may not maintain more than one primary residence at any given time.

### 4.6.3 Second Home Properties

A second home is a property that is located a reasonable distance away from the borrower's primary residence and is occupied by the borrower for some portion of the year. A "reasonable distance" may vary based on the borrower's current and expected income and geographical location, among other things. Mortgages that are secured by second homes are limited to one dwelling units.

The property must be suitable for year-round occupancy (and can, in fact, be occupied by someone other than the borrower, so long as the occupancy is not a rental property or under a timeshare arrangement and any rental income and expenses on Schedule E of the borrower's personal tax return must not exceed thirty (30) rental days). The borrower must have exclusive control over the property; therefore, he or she must not enter into any rental agreements or shared ownership agreements that require the property to be rented or give a management firm control over the occupancy of the property. When a property is classified as a second home, rental income may not be used to qualify the borrower.

### 4.6.4 Investment Properties

An investment property is defined as a one (1) to four (4) unit residential property that the borrower does not occupy. Typically an investment property is owned for the purpose of generating positive cash flow. Investment properties require an attestation signed by the borrower (and any co-borrower, as applicable) that the mortgaged property is used one hundred percent (100%) of the time for business purposes, will not be occupied by the borrower, and will not be used for a consumer, household, or family purpose by the borrower in order for the loan to be categorized as a Non-Owner Occupied Mortgage Loan. If the borrower does not provide such attestation, the loan must comply with TILA and all other applicable law.

## 4.7 Verification of Mortgage or Rent

Applications must be supported by the most recent twenty-four (24) months mortgage or rent payment history, as applicable. Whenever possible, a verification of mortgage ("VOM") should be obtained on all outstanding loans the borrower may have or are evidenced by the borrower's credit report. If the mortgage account is not reported on the credit report, the Seller must obtain a VOM, if applicable, directly from the mortgage servicer.

Acceptable methods of VOM are:

- Completed VOM form and computerized payment history printout from the mortgage servicer;



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- Credit bureau report reflecting a payment history over the last twenty-four (24) months;
- Canceled checks, front and back, reflecting necessary mortgage payments over the last twenty-four (24) months; or
- Canceled checks, front and back, reflecting necessary mortgage payments over the most recent twelve (12) months and a completed VOM form and computerized payment history printout from the mortgage servicer for the preceding twelve (12) months;

Private party mortgages, handled by a servicing company, may be verified as outlined above. If the servicing of the mortgage is not handled by a servicing company, pay history must be verified by canceled checks or bank statements (if the payments are automatically withdrawn from the borrower's account) and the balance must be verified using the balance as reflected on the recorded mortgage or deed of trust and/or payoff letter addressed to the Seller.

If the borrower does not have an outstanding mortgage loan, a verification of rent ("VOR") must be completed to verify the borrower's prior rental payment history for a period of the last twenty-four (24) months. Acceptable VOR's include:

- Canceled checks, front and back, reflecting necessary rent payments;
- Bank statements reflecting rent payments and a signed lease agreement; or
- Landlord - completed VOR form - acceptable only if the landlord is a professional management company.

Borrowers with no mortgage or rental history due to a residence scenario requiring no mortgage or rental payments are eligible with a satisfactory letter of explanation.

## 4.8 Employment

A thorough review and verification of the borrower's past and present employment status must be evidenced to prove that the borrower's probability of continued employment and repayment ability was evaluated. The analysis must be considered in accordance with the TILA's implementing regulations, including Appendix Q, as amended from time-to-time, and this PEG.

## 4.9 Employment Verification

### 4.9.1 Introduction

A minimum of thirty (30) calendar days current employment is required, with two (2) years of continuous employment, to be verified for each borrower. Any gaps in employment greater than thirty (30) calendar days during the most recent two (2) year period must be explained by the borrower in writing. A minimum of six (6) months current employment is required, with two (2) years of continuous employment, to be verified for each borrower if there is any gap in employment greater than six (6) months during the most recent two (2) year period.

If a borrower was in the military or in school during the preceding two (2) years, the borrower must provide satisfactory documentary supporting evidence of such status such as, among other things, military discharge documents or college transcripts, respectively.

### 4.9.2 Certification of Employment

An independent phone certification is required on all mortgage product requests. Reasonable efforts should be



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exhausted to obtain certification of a borrower's employment with a third-party. These efforts could include, but are not limited to; phone certification, direct connect, or third-party vendor services. Certifications should cover at least the most recent two (2) years of a borrower's employment/income history. For the avoidance of doubt, if the borrower has multiple employers over the past two (2) years, the Seller must have verbally verified employment with all employers over the past two (2) years (even if the borrower is no longer employed with the previous employers).

Sellers may assume that employment is ongoing if a borrower's employer verifies such borrower's current employment and does not state that such employment has been, or is expected to be, terminated. If an employer affirmatively states that a borrower's employment is likely to cease, a Seller should not rely upon the related verification of employment.

#### **4.9.3 Verification of Employment**

Verification of employment ("VOE") must be obtained prior to closing.

##### VOE for Self-Employed Income Borrowers:

- Verification must be made within thirty (30) calendar days prior to the actual loan closing date from a third-party, such as the secretary of state, a CPA, regulatory agency, or the applicable licensing bureau, if possible. If a CPA letter is utilized, it must indicate that the borrower has been self-employed for a minimum of two (2) years.
- If the foregoing option is not possible, then:
  - Evidence of current work (executed contracts or signed invoices that indicate the business is operating on the day the Seller verifies self-employment);
  - Evidence of current business receipts within ten (10) days of the loan closing date (payment for services rendered);
  - Seller certification that the borrower's business is open and operating (Seller confirmed through a phone call or other means); or
  - Business website demonstrating activity supporting current business operations (timely appointments for estimates or service can be scheduled).

##### VOE for Hourly, Salary, and Commission Income Borrowers:

- Confirmation of current employment must be verified in writing. 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;
- A year-to-date paystub from the pay period that immediately precedes the loan closing date; or
- Bank statements (or other alternative documentation that complies with Agency requirements) evidencing the payroll deposit from the pay period that immediately precedes the loan closing date.

If the borrower is in the military, a military leave and earnings statement ("LES") dated within thirty (30) calendar days of closing is acceptable in lieu of a VOE. If the date the borrower signed the documents results in the required timelines to be exceeded, an updated VOE must be obtained.

#### **4.9.4 Verbal VOE**

Confirmation of current employment must be verified, either verbally or in writing, within five (5) business days of the loan closing date. Verbal verification must be documented including the name and title of the



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person who confirmed the employment, the date of the call, and the source of the phone number. Verification via a third-party website (for example, Work Number for Everyone) is also acceptable. The VOE must cover twenty-four (24) months of employment. If the borrower has changed jobs during the past twenty-four (24) months, the VOE must show the start and end dates for each job.

#### **4.9.5 Re-Verification of Employment**

Sellers will be required to re-verify the borrower's employment once any and all conditions placed on the loan during due diligence review by the Firm have been cleared and prior to the purchase of the loan by the Firm using one of the methods set forth in Section 4.9.3. All such verifications must be completed within ten (10) days of the Firm's purchase of the related loan.

### **4.10 Age of Documentation**

The maximum age of credit documentation used to determine the borrower's eligibility typically must be no more than ninety (90) calendar days old on the date the note and mortgage are signed. Documentation older than ninety (90) calendar days generally must be re-verified and reviewed for any material changes.

### **4.11 Documentation of Income**

#### **4.11.1 Income Requirements**

Income is a key factor used to determine a borrower's capacity or ability to repay his or her loan. Supporting documentation must be obtained either from the borrower or directly from borrower's employer or financial institution. All determinations regarding income must comply to all applicable law including, but not limited to, the requirements set forth in 12 CFR §1026.43 and Appendix Q, each as amended from time to time.

Full documentation is required for all loans presented to the Firm for purchase. Borrowers are required to sign an IRS Form 4506-T prior to closing. In addition, the tax transcripts (for each year requested) must be obtained prior to closing and used in the underwriting of the loan. For self-employed borrowers, if the borrower has not provided their signed tax returns, the tax transcripts may be obtained for both personal and business returns (for any business in which the borrower(s) own(s) twenty-five percent (25%) or more of the ownership interests therein) regardless of whether the income from such business is used to qualify the borrower(s) for the loan, and a separate IRS Form 4506-T must be filled out for each business entity and such transcripts obtained prior to closing. Moreover, the tax transcripts for businesses (self-employed borrowers, partnerships, limited liability companies, s-corporations, and corporations) may be requested by the Seller if additional confirmation of the applicable business's income is necessary to document the borrower's income.

#### **4.11.2 Documentation Requirements**

The standard income and related documentation requirements are set forth below:

- Salaried Employees
  - Most recent thirty (30) days paystubs with year-to-date earnings. All paystubs must be computer-generated.
  - W-2s for the most recent two (2) year period. All W-2s must be computer-generated.



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- If a borrower was in the military or in school during the preceding two (2) years, the borrower must provide satisfactory documentary supporting evidence of such status such as, among other things, military discharge documents or college transcripts, respectively.
- Tax returns are not required for salaried borrowers if wage income is the only source of income used for qualification.
- Two (2) years of tax transcripts are required to be obtained from the IRS within five (5) business days of the transcript service becoming available. The transcripts may be provided post-purchase, as applicable. Borrower pulled transcripts are not acceptable. The transcripts will be used to validate the income documentation used to underwrite the loan. Wage transcripts are acceptable for W-2 borrowers. The tax transcripts and the supporting income documentation provided by the Seller must be consistent.
- Salaried borrowers who also own twenty-five percent (25%) or more of a business or other entity are required to provide a year-to-date profit and loss statement and balance sheet for that business or entity even if the income from that business or entity is not being used to qualify. This requirement includes all businesses and entities including those organized as pass through entities.
- Salaried borrowers who file a Schedule C (sole proprietorship) will be considered as self-employed and required to provide a year-to-date profit and loss statement and balance sheet. This includes borrowers who may be filing the Schedule C as a tax write off for accounting purposes.
- For borrowers receiving bonus, commission, or any other non-base salary compensation in addition to base salary, a two (2) year history of the receipt of the income is required.
  - This must be addressed with a written VOE breaking down the bonus or commission income for the past two (2) years and supported by a year-to-date paystub.
  - A year-to-date paystub, W-2s and tax returns along will not satisfy the documentation requirements for bonus, commission or any other non-base salary compensation.
- Sole Proprietorships and Self-Employed Borrowers
  - Borrowers who own twenty-five percent (25%) or more of a business or other entity are considered self-employed and will be evaluated as a self-employed borrower for underwriting purposes.
  - If business income is to be considered for qualifying income, the borrower must provide the following:
    - Federal individual income tax returns (Form 1040) and business tax returns signed by the borrower with all attached schedules, for the most recent two (2) tax years. If prepared by a CPA, the CPA name and phone number must be shown on the Preparer section of the tax return.
  - Self-employed borrowers using wage income paid by their business to qualify need to provide:
    - W-2s (computer-generated) for the most recent two (2) year period; and
    - Most recent thirty (30) days paystubs (computer-generated) with year-to-date earnings.
  - Borrowers who also own twenty-five percent (25%) or more of a business or other entity are required to provide business tax returns, including all schedules, in order to calculate the



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- average loss. This is required even if the income from that business or entity is not being used to qualify.
- Two (2) years of tax transcripts are required to be obtained from the IRS within five (5) business days of the transcript service becoming available. The transcripts may be provided post-purchase, as applicable. Borrower pulled transcripts are not acceptable. The transcripts will be used to validate the income documentation used to underwrite the loan. Wage transcripts are acceptable for W-2 borrowers. The tax transcripts and the supporting income documentation provided by the Seller must be consistent.
- Profit and Loss Statements and Balance Sheets
  - Year-to-date profit and loss statements and balance sheets are required if the note date is beyond ninety (90) days from the end of the last fiscal year.
  - Borrowers who own twenty-five percent (25%) or more of a business or other entity are required to provide a year-to-date profit and loss statement and balance sheet for that business or entity even if the income from that business or entity is not being used to qualify. This requirement includes all businesses and entities including those organized as pass through entities.
  - If the tax return for the previous tax year has not been filed, a twelve (12) month profit and loss statement and balance sheet for this period is required.
  - If the most recent year's tax returns have not been filed by the IRS deadline, an executed copy of the borrower's extension request for both personal and business tax returns must be furnished.
  - Profit and loss statements and balance sheets are required even if the borrower does not have a business checking account.
  - Profit and loss statements and tax returns must show stable or increasing income from all business entities and income sources for the period relative to previous periods. Income cannot decline by twenty percent (20%) or more from the prior tax period.

## 4.12 Income Analysis

### 4.12.1 General Income Analysis Requirements

Each borrower's income who will be obligated on the mortgage, and whose income is relied upon in determining the ability to repay, must be analyzed in accordance with applicable regulations, including but not limited to the TILA and its implementing regulations, as amended from time to time. In most cases, a borrower's income is limited to salaries or wages, however, income from other sources may be considered when properly documented and verified. Other income sources may include, for example, self-employment income; bonus or overtime pay; part-time or seasonal income; commissions; retirement income; Social Security income; investment and trust income; and military, government agency and assistance program income.

The non-taxable portion of fixed income such as Social Security income, VA benefits, pension and annuity income may be grossed-up twenty-five percent (25%).

The Firm will only purchase loans for which the Seller has considered and verified, at or before the loan closing, the borrower's current or reasonably expected income or assets (other than the value of the mortgaged property that secures the loan) in accordance with Appendix Q of the TILA's implementing regulations, as amended from time to time. Moreover, each loan file and underwriting documents must



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include evidence of compliance with Appendix Q, as amended from time-to-time. If anything within this PEG conflicts with Appendix Q, Appendix Q shall govern.

#### 4.12.2 Additional Income Requirements

- **Foreign Income:** Foreign income used for qualifying must be supported by U.S. tax returns covering the most recent two (2) years.
- **Unreimbursed Expenses:** Unreimbursed business expenses must be deducted from income. This includes borrowers who earn commission income regardless of the percentage of income to total income.
- **Family Businesses:** Borrowers employed in a family business must provide evidence that they are not owners of the business as evidenced with a letter from a qualified disinterested third-party CPA. The borrower must also provide federal individual income tax returns (Form 1040) signed by the borrower with all attached schedules, for the most recent two (2) tax years. If prepared by a CPA, the CPA name and phone number must be shown on the Preparer section of the tax return.
- **Rental Income:** Rental income from other properties must be documented with the borrower's most recent signed federal income tax return that includes Schedule E. Leases are required for all properties where rental income is being used to qualify. Rental income for properties with leases from management companies or other rental companies (i.e., Airbnb and VRBO) is not allowed. Properties with expired leases that have converted to month to month per the terms of the lease will require bank statements for the lesser of twelve (12) months or the time period after the lease expired. A twenty-five percent (25%) vacancy factor must be applied to the gross rent used for qualifying. Multiply the gross rent by seventy-five percent (75%) and subtract the PITIA to arrive at the rental income/loss used for qualifying. Commercial properties owned on Schedule E must be documented with a rent roll and evidence that the primary use and zoning of the property is commercial.
- **Retirement or Pension Income:** Retirement or pension income must be verified by the following:
  - Copies of retirement award letters.
  - Copies of last two (2) months bank statements to document the regular deposit of payments.
  - Distributions from a retirement account (401K, IRA, Keogh, SEP) must be documented with a distribution letter and copies of last two (2) months bank statements to document the regular deposit of payments.

Annuity retirement benefits must have a minimum continuance of three (3) years from the date of the application to be considered as qualifying income.

- **Social Security Income:** Social Security income must be verified by the following:
  - Copy of the Social Security Administrations award letter.
  - Copies of last two (2) months bank statements to document the regular deposit of payments.

Benefits must have a minimum continuance of three (3) years from the date of the application to be considered as qualifying income.

- **Alimony and Child Support Income:** Alimony and child support income are allowable sources of income with proof of a minimum continuance of three (3) years from the date of the application.
- **Unacceptable Forms of Income:** Unacceptable forms of income include the following:
  - Any source that cannot be verified.





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- Restricted stock income.
- Income that is temporary.
- Rental income (boarder icome) received from the borrower’s primary residence.
- Expense account payments.
- Retained earnings.
- Non-occupant income.
- Distributions from a retirement account (401K, IRA, Keogh, SEP) must be documented with a distribution letter and copies of last two (2) months bank statements to document the regular deposit of payments.

## 4.13 Assets

### 4.13.1 Asset Requirements

A borrower must have sufficient liquid assets to complete the loan transaction, including the down payment, prepaid items and closing costs. In addition, a borrower must have sufficient reserves after closing without having to borrow supplemental funds. In evaluating a borrower’s equity, the source of the closing costs and down payment must be verified to ensure that unsecured borrowing to fund such amounts has not taken place. Large deposits inconsistent with verified income must be verified.

### 4.13.2 Down Payment Requirement

Borrowers are required to make a down payment from their own source of verifiable funds or equity. Five percent (5%) of their own funds will be required on all loans.

### 4.13.3 Acceptable Sources of Funds

The following sources of funds are acceptable:

- Bank deposits;
- Stocks, stock options, bonds and mutual funds. Stocks and bonds will be discounted at seventy percent (70%) of value for reserves;
- Life insurance surrender value if used for cash to close must be liquidated. If used for reserves, no liquidation is required;
- Sale of real property;
- Sale of personal property with supporting documentation;
- Disbursement from a trust fund;
- Disbursement from an IRA or 401(k);
- Disaster relief grants;
  - Borrowers may use lump sum grants for down payment and no minimum contribution is required. The grant may not be used for closing costs or reserve requirements. Acceptable documentation is required to evidence that the grant is an actual grant and not a loan. Subordinate liens against the property are not eligible;

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- Business funds subject to the following:
  - Business funds can be used for down payment. Personal and business tax returns for the entity the funds are being withdrawn from and a year-to-date profit and loss statement and balance sheet are required. Business funds may not be counted towards cash reserves; and
  - A letter from a qualified disinterested third-party CPA confirming (i) the amounts of business assets that can be used must correspond to the borrower's percentage of ownership in the business, (ii) the funds are not a loan, and (iii) withdrawal of the funds will not adversely affect the business.
- Gift funds subject to the following:
  - Borrower must contribute at least five percent (5%) from their own funds;
  - Gift donor must be a relative, which is defined as the borrower's spouse, child, or other dependent, or by another individual who is related to the borrower by blood, marriage, adoption, or legal guardianship, or a fiancé or a domestic partner;
  - Gift letter from the donor that includes the name, address, telephone number and relationship to the borrowers;
  - Evidence of the funds transfer and receipt prior to closing; and
  - Gift funds may not be used to pay off debt to qualify.

#### **4.13.3 Unacceptable Sources of Funds**

The following sources are not acceptable to be used as a down payment:

- Personal or unsecured loans;
- Equity lines of credit;
- Credit card advances;
- Foreign assets;
- Non-marketable securities;
- Gifts of equity;
- Profit sharing plans;
- Sweat equity; and
- Gifts that must be re-paid.

#### **4.13.4 Cash To Close**

Borrowers must provide sufficient evidence of funds for the down payment, prepaid items, closing costs and reserves.

Large deposits exceeding fifty percent (50%) of the borrower's total monthly qualifying income or any large deposit that is out of the ordinary must be verified and explained by the borrower with the source of such funds documented. Large deposits that cannot be sourced and explained may be subtracted from the asset amount.

## 4.14 Liabilities

All calculations used to determine a borrower's debts and other liabilities must satisfy, and be documented as required by TILA and its implementing regulations including Appendix Q, as amended from time-to-time.

### 4.14.1 Installment Debt

The following requirements with respect to installment debt shall apply:

- Installment debt, including car lease payments, must be included in the qualifying ratio regardless of months remaining.
- Debt that is not a contingent liability must be included in the DTI. A contingent liability is defined as a debt paid by a party or entity other than the borrower where said party or entity and not the borrower is the primary obligor. If the borrower is the primary obligor on any liability the debt must be included in the DTI. Example: A borrower financed the purchase of an automobile for their business and the business pays the loan. If the loan is in the borrower's name this debt must be included in the DTI.
- Real estate owned by the borrower where the borrower is not on the note may be excluded from DTI with twelve (12) months cancelled checks showing another party is making the payments. Tax and Insurance amounts on the property must be document and the full amount of taxes and insurance must be included in the DTI.
- PITIA on real estate owned pending sale must be included in the DTI.
- Borrowers who have entered into an IRS repayment plan must have a minimum of three(3) months timely pay history. Credit report and title must not indicate an IRS tax lien.
- Student loans must be included as a long term debt even if payments are deferred. If the monthly amount of a student loan is not shown on the credit report a payment of one percent (1%) of the balance may be used for qualifying.
- Payments related to a 401(K) loan do not need to be included in total debt obligation.
- Child support payments with ten (10) months or less remaining do not need to be included in total debt obligation.
- Installment debt may be paid off to qualify before closing.
- Gift funds may not be used to pay off debt to qualify.

### 4.14.2 Revolving Debt

The following requirements with respect to revolving debt shall apply:

- All revolving debt is included for qualifying regardless of number of payments remaining.
- The monthly payment amount of a revolving account shown on the credit report may be used for qualifying.
- If the monthly payment amount of a revolving account is not shown on the credit report a payment of five percent (5%) of the balance may be used for qualifying.



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- Payments may only be excluded if the account is documented as paid in full and closed.
- Revolving debt may be paid off to qualify before closing. Documentation that the revolving debt has been paid off and the account is closed is required.
- Gift funds may not be used to pay off debt to qualify.
- For open 30-day charge accounts (for example, American Express), the borrower must have sufficient verified liquid assets to pay off the balance in addition to any reserve requirements to exclude the payment.
- Debt that is not a contingent liability must be included in the DTI. A contingent liability is defined as a debt paid by a party or entity other than the borrower where said party or entity is the primary obligor. If the borrower is the primary obligor on any liability the debt must be included in the DTI. Example: A borrower purchased an automobile for their business. The business pays the loan however the loan is in the borrower's name. This debt must be included in the DTI.

#### **4.14.3 Home Equity Lines of Credit (HELOC)**

For HELOC loans paid off at closing, the line must be closed to any future draws. Requirement on title commitment for payoff and cancellation of HELOC is acceptable to document.

#### **4.14.4 Conversion of Departing Residence to Investment Property**

If the current primary residence is being converted to an investment property, the following shall apply:

- The rental income from the departing residence may be used if the borrower has a loan to value of 75% or less, as evidenced by either:
  - A current residential appraisal (no more than six (6) months old from application date) and outstanding liens as evidenced by a mortgage statement or credit report reference or;
  - An exterior only appraisal (2055) (no more than six (6) months old from application date) and outstanding liens as evidenced by a mortgage statement or credit report reference or;
  - An automated valuation model (AVM) listing the prior sales price minus outstanding liens as evidenced by a mortgage statement or credit report reference. The AVM may not be used as a current valuation to determine the borrower's equity percentage.
- A twenty-five percent (25%) expense /vacancy deduction must be applied to all rental income. Copies of the signed lease are required.
- Reserves of six (6) months of PITIA must be documented in addition to the required reserves for the primary residence.

### **4.15 Analysis of Credit Bureau Report**

#### **4.15.1 Analysis of Credit Bureau Report Requirements**

Data found in the credit report provides information about a borrower's borrowing habits, information from public records, addresses and employers previously declared by the borrower when applying for credit in the past.

#### **4.15.2 Age of Credit Bureau Report**

A credit bureau report must be obtained on all borrowers on a loan, regardless to the number of borrowers. All debts must be considered and verified for all borrowers as part of loan qualification. The credit bureau report cannot be more than ninety (90) days old at the time the note and mortgage are signed. A merged in-file credit report (a merge of three credit bureau repositories) must be obtained on all first loans.

To determine a borrower's ability to pay debts, the following should be evaluated:

- Age of the accounts;
- The frequency and severity of any late payments;
- The size of the account balances;
- How long ago any late payments occurred; and
- The status of the borrower's other credit accounts.

#### **4.15.3 Minimum Requirements**

For a credit report and credit score to be considered valid, all of the following requirements must be met for each borrower contributing income:

- A minimum of three (3) open tradelines must be evident with at least three (3) tradelines open for at least twenty-four (24) months;
- A minimum of three (3) tradelines must have had activity in the past twenty-four (24) months from the application date;
- A minimum of two (2) tradelines must have had activity in the past twelve (12) months from the application date;
- At least one (1) tradeline must be an installment, rental or mortgage account;
- Authorized user accounts and non-traditional credit do not count towards meeting the requirements for tradelines; and
- None of the tradelines must have experienced significant adverse credit such as charge-offs or collections.

#### **4.15.4 Judgments, Garnishments, and Liens**

All open judgments, garnishments or liens (including tax liens) that may adversely impact the lien position of the mortgage must be paid off at, or prior to, closing.

#### **4.15.5 Past-Due Accounts**

Accounts that are reported as past due, which are not reported as collection accounts, must be brought current.

#### **4.15.6 Charge-off and Outstanding Collections Accounts**



The power of yes.

Collection and charge-offs accounts which exceed \$1,000.00 individually, or if multiple collection and charge-off accounts, which in aggregate exceed \$2,500.00, must be paid in full prior to or at closing.

#### **4.15.7 Excessive Mortgage Delinquency**

A loan to a borrower with excessive prior mortgage delinquencies is not eligible for sale to the Firm. Excessive mortgage delinquency is defined as any mortgage tradeline that has one or more thirty (30) day or greater delinquency reported within the twenty-four (24) months preceding the credit report date.

#### **4.15.8 Foreclosure**

The presence of a prior foreclosure action in the borrower's credit history is evidence of significant derogatory credit and increases the likelihood of future default. The presence of a foreclosure is an added risk element that represents a significantly higher level of default risk. The greater the number of such incidences and the more recently they occurred, the higher the credit risk.

A loan where the related credit report reflects the presence of a foreclosure during the immediately preceding seven (7) years is not eligible for sale to the Firm.

#### **4.15.9 Deed-In-Lieu of Foreclosure/Short Sale**

If, during the immediately preceding seven (7) years, as an alternative to foreclosure, a borrower participated in a deed-in-lieu of foreclosure where the deed to the real property was transferred back to the servicer, or a short sale where the property was sold resulting in a servicer-approved payoff of less than the total amount owed, the loan will not be allowed and verification will occur via credit report review.

#### **4.15.10 Bankruptcy**

A loan where the related credit report reflects a bankruptcy during the immediately preceding seven (7) years is not eligible for sale to the Firm.

#### **4.15.11 Letters of Explanation ("LOE")**

Letters of explanation regarding financial circumstances must specifically address the financial or credit concern presented and must contain a complete explanation in the applicant's own words, and be signed and dated by the applicant.

#### **4.15.12 Undisclosed Debt/Credit Bureau Inquiries and Monitoring**

In order to identify and investigate possible undisclosed debt, the Seller must either utilize undisclosed debt monitoring services ("UDM") to monitor the credit activity of borrowers between the date of the initial credit report(s) and the closing date or, if the Seller does not utilize a UDM service, obtain a credit report refresh for all borrowers within ten (10) days prior to the loan closing. The Seller must review the results of any UDM monitoring or the section of the borrower's credit report that indicates the presence of creditor inquiries to determine the number, frequency and dates of the inquiries. When the UDM monitoring or credit report indicates that recent inquiries took place within one-hundred twenty (120) days of the credit report date, the borrower must explain the reason for the credit inquiry and the Seller must confirm that the borrower did not obtain additional credit that is not reflected in the credit report or mortgage



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application. If additional credit was obtained, verification of that debt must be provided and the debt must be disclosed on the borrower’s final loan application and the borrower’s DTI ratio, taking into account such previously undisclosed debt, must be recalculated in accordance 12 CFR §1026 and Appendix Q, as amended from time-to-time.

**4.15.13 FraudGUARD® or Similar Third Party Fraud Report Product**

FraudGUARD® by Interthinx® is a comprehensive system that provides loan-level information on valuation, fraud detection and regulatory compliance issues. The Seller must utilize FraudGuard® or a similar product to evaluate the borrower and loans, and to clear any adverse finding prior to making its decision to approve the loan for closing. Documentation as to the use of such product and the Seller’s actions to clear any adverse findings must be included in the loan file delivered to the Firm.

**4.16 Credit Scores**

**4.16.1 Credit Score Requirements**

The three (3) major credit repositories who provide credit scores are Experian, TransUnion and Equifax. A valid credit score must be obtained for all borrowers on an application prior to the consummation of the loan. The Seller must attempt to obtain a credit score for each borrower from all three credit reporting agencies. A minimum of two (2) credit scores must be available for each borrower. The methodology for determining the representative/qualifying credit score for the loan decision is:

| Number of Borrowers | Number of Borrower Present | Methodology Applied   |
|---------------------|----------------------------|---|
| 1                   | 1                          | Ineligible  |
| 1                   | 2                          | Lower of 2 as represented   |
| 1                   | 3                          | Middle of 3 as represented  |
| 2 or more           | 1                          | Ineligible  |
| 2 or more           | 2                          | Determine lowest score for each borrower, lowest score of that result is representative score |
| 2 or more           | 3                          | Determine middle score for each borrower, lowest score of that result is representative score |

As in all cases, the Seller must ensure that the credit report accurately reflects the borrower’s information. Loans for which the related borrower does not have a credit score are not eligible for sale to the Firm. Loans underwritten in reliance on alternate or non-traditional credit scores are not eligible for sale to the Firm.

**4.17 Debt-to-Income (“DTI”)**

The Debt-to-Income (DTI) ratio is based on the total of existing monthly liabilities and any planned future monthly liabilities divided by gross monthly income. Liabilities include but are not limited to all housing expenses, revolving debts, installment debts, other mortgages, rent, alimony, child support, and other consistent and recurring expenses. The Seller must ensure that all liabilities are included in qualifying. This includes debts paid by another entity such as the borrower’s business or debts being paid by a family member.

All determinations regarding a borrower’s debt must conform to the requirements of TILA’s implementing regulations, including Appendix Q, all as amended from time-to-time.



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## 5. Insurance Requirements

The Seller is responsible for ensuring that all loans delivered to the Firm have valid hazard insurance, title insurance, and flood insurance (when applicable). Loans with mortgage insurance are not permitted. Additionally, the Seller is responsible for ensuring that all taxes that become due and payable are paid on time and in compliance with all applicable laws and regulations. The Seller will be responsible for the payment of all delinquent tax installments in addition to any fees or penalties incurred for delinquent tax payments if the Seller was responsible for paying such taxes. For loans that are subject to an escrow account, the Seller must use aggregate accounting in the calculation of the escrow account and the Seller must collect funds sufficient to pay the next installment of taxes and insurance, ground rents, and any special assessments, as applicable.

### 5.1 Title Insurance

#### 5.1.1 Introduction

It is the Seller's responsibility to ensure that the lien of the property is protected and to ensure that all appropriate endorsements are obtained to ensure such protection. The title to the subject property must be good, marketable and free of all encumbrances and prior liens. The Seller must refer to Agency guidelines for all requirements related to title insurance, including acceptable insurers, required endorsements, mortgagee clauses and acceptable forms in addition to what is outlined below.

The title policy must evidence that the mortgage supports a first priority lien on a fee simple in the property. It must also list all other liens against the property and state that each such lien is subordinate to the Seller's mortgage lien.

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

- 2006 American Land Title Association ("ALTA") Standard Form;
- ALTA Short Form; or
- ALTA form with amendments required by state law in states where standard ALTA forms of coverage are not used or in which the 2006 ALTA forms have not yet been adopted; provided, that the amendments do not materially impair protection to the Seller or its successors and/or assigns.

The title policy must include an environmental protection lien endorsement (ALTA 8.1-06 or equivalent state form).

The title policy must insure the mortgagee and its successors and assigns as to the first priority lien of the loan amount at least equal to the outstanding principal balance of the loan.

A statement by the title insurance company or closing attorney on such binder or commitment that the priority of the lien of the related mortgage during the period between the date of the funding of the related loan and the date of the related title policy (which title policy shall be dated the date of recording of the related mortgage) is insured.

#### 5.1.2 Amount of Required Coverage

The amount of title insurance coverage must be greater than or equal to the original principal balance of the loan.





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### **5.1.3 Effective Date of Title Insurance Coverage**

For policies written on the 2006 ALTA Standard Form, the effective date may be the closing date of the loan. For policies written on forms other than the 2006 ALTA Standard Form, the effective date may be no later than ninety (90) days from the closing date and must insure the exact loan amount.

### **5.1.4 Title Insurance for Condominiums and PUDs**

The following endorsements are required for condominiums and PUDs. The title policy must describe all components of the unit estate.

- Condominium Units: ALTA 4-06 or 4.1-06 or its equivalent.
- PUDs: ALTA 5-06 or 5.1-06 or its equivalent.
  - In the event that the unit owners own the common areas of the project as tenants-in-common, the title policy for each unit owner's mortgage must reflect that ownership. If, however, the common areas are owned by the HOA, the title policy must reflect that ownership.
  - The title policy must show that the title to the common elements, areas, or facilities are free and clear of any objectionable liens and encumbrances, including any statutory or mechanic's liens for labor or material related to improvements on the common areas that began before the title policy was issued.
  - The title policy must protect the Firm by insuring the following:
    - The mortgage is superior to any lien for unpaid common expense assessments (in jurisdictions that give these assessments a limited priority over a first or second mortgage lien, the policy must provide assurance that those assessments have been paid through the effective date of the policy);
    - Insure against any impairment or loss of title of the Firm's lien caused by any past, present, or future violations of any covenants, conditions, or restrictions of the master deed for the project (it must specifically insure against any loss that results from a violation that existed as of the date of the policy);
    - The unit does not encroach on another unit or on any of the common elements, areas, or facilities (the policy also must insure that there is no encroachment on the unit by another unit or by any of the common elements, areas, or facilities);
    - The loan is secured by a unit in a condo project that has been created in compliance with the applicable enabling statutes;
    - The real estate taxes are assessable and lien able only against the individual condo unit and its undivided interest in the common elements, rather than against the project as a whole; and
    - The owner of a PUD unit is a member of the HOA and that the membership is transferable if the unit is sold.

### **5.1.5 Adjustable Rate Loans**

The policy for any mortgages that is an adjustable rate mortgage loan, must include ALTA Endorsement 6-06.



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## **5.2 Hazard Insurance**

### **5.2.1 Introduction**

The Firm requires hazard insurance protection on all loan transactions. Each borrower may select his or her own insurance carrier for hazard insurance coverage provided that the insurer, the hazard insurance policy and the coverage amount meet Agency guidelines. The Seller must ensure that the insurance carrier, policy and coverage meet Agency guidelines prior to delivery to the Firm.

Hazard insurance coverage must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. Provisions for the settlement of claims must be made on a replacement cost basis. Extended coverage must include damage from wind, civil commotion, riots, smoke, hail, aircraft, vehicle or explosion. Policies that exclude from coverage, in whole or in part, damage from windstorm, hurricane, hail, or any other perils normally included under an extended coverage endorsement will not be accepted unless the borrower obtains a separate policy or endorsement that provides adequate coverage for the limited/excluded peril. If the state in which the collateral is located has an established insurance pool that will cover the limitations or exclusions the additional policy or endorsement will not be required.

Hazard insurance coverage must have the same inception date as the date of disbursement on purchase money mortgages. This may be documented with a post-closing Closing Disclosure or the correction of the inception date on the hazard policy.

### **5.2.2 Amount of Required Coverage**

The amount of hazard insurance coverage and the deductible amount for each mortgage property type must meet the requirements of the Agencies. In some cases, the Agencies may require additional coverage or consider additional coverage that differs from each Agency's standard guidelines. Refer to published Agency guidelines for all details outlining hazard insurance requirements.

## **5.3 Flood Insurance Requirements**

### **5.3.1 Introduction**

Flood insurance protection is required on all mortgaged properties when applicable. Additionally, each flood insurance policy must include coverage and evidence of conformance to currently effective Agency guidelines. Sellers must ensure that any required flood insurance for a mortgaged property is in effect prior to delivery to the Firm. Flood insurance is required for any property that has a building, dwelling, structure or improvement located in a Special Flood Hazard Area ("SFHA") that has federally mandated flood insurance purchase requirements must comply with all applicable law for obtaining and maintaining flood insurance. Sellers must determine whether any of the improvements for a mortgaged property are located in a SFHA by using the most recent standardized form published by Federal Emergency Management Agency regardless if the use of such form is required by law, rule, or regulation for the particular type of mortgage which may be purchased by the Firm. Refer to published Agency guidelines for all details outlining flood insurance requirements.

### **5.3.2 Amount of Required Coverage**

The amount of flood insurance coverage and the deductible amount for each mortgage property type must meet the requirements of the Agencies. In some cases, the Agencies may require additional coverage beyond what is required by applicable law, and each Seller must consider such additional



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coverage that differs from Agency guidelines. Refer to published Agency guidelines and all applicable laws for all details outlining flood insurance requirements.

## 5.4 Additional Insurance Coverage Requirements

Refer to published Agency guidelines for all details outlining additional insurance policy, coverage and evidence requirements.

## 6. Valuation Principles and Requirements

### 6.1 Valuation Overview

Determining the adequacy of the collateral is a critical risk element in mortgage lending. Sellers are responsible for ensuring that a mortgaged property provides adequate collateral for the related loan. The Firm requires that Sellers obtain a signed and completed appraisal report that accurately reflects the market value, condition and marketability of each mortgaged property. Seller must ensure that each appraiser, appraisal and supporting document meets Agency guidelines prior to delivery to the Firm.

### 6.2 Appraisal Requirements

#### 6.2.1 Overview

Sellers should determine that the appraisal report has been professionally completed and that it logically supports the indicated property value, condition and marketability.

All appraisals must be performed and signed by: (i) an appraiser, who may be selected by the Seller or, if applicable, (ii) an appraiser employed by the Seller; provided, that if the appraiser is an employee of the Seller, the appraiser must have had no direct or indirect interest (financial or otherwise) in the property or in any loan made on the security thereof and such appraiser's compensation is not affected by the approval or disapproval of the loan. Moreover, the selection of the appraiser must have been made independent of the broker (where applicable) and the Seller's lending, investment and collection functions.

Each of the appraiser and the appraisal must satisfy the requirements of the Agencies (including but not limited to the Appraiser Independence Requirements) and Title XI of FIRREA and the regulations promulgated thereunder, in effect on the date the appraiser's certification on the appraisal is signed. Each appraiser must be state-licensed or state-certified, as applicable, who has the requisite knowledge to perform a professional quality appraisal in the specific geographic area where the subject property is located and has access to the necessary data sources for the area in which the property is located.

The appraiser must complete the appropriate appraisal form with detailed and accurate information about the property, neighborhood, and recent comparable sales. The appraiser must complete the appropriate appraisal form, including all addenda, with detailed and accurate information about the property, neighborhood, and recent comparable sales. The appraiser provides an opinion of value for the real property based on a logical analysis of this information and professional judgment. The appraiser must include a copy of his or her license with the appraisal report.

The appraisal must comply with the Uniform Standards of Professional Appraisal Practice ("USPAP"), Agency guidelines (including the Uniform Appraisal Dataset ("UAD") specifications) and satisfy all legal and regulatory requirements.



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The appraisal report must contain an accurate description of the improvements and any factors that may affect the market value or marketability of the subject property. The appraiser must discuss the impact on value and marketability for improvements that are in fair or poor condition and make appropriate adjustments in his or her analysis. Appraisal report forms required to be completed using the UAD must incorporate the UAD condition rating (C1, C2, C3, C4, C5, or C6) that best describes the overall condition of the subject property. The condition of the property should be determined as a holistic overall rating. The appraisal report must identify and describe physical deficiencies that could affect a property's safety, soundness, or structural integrity.

The following conditions must be met on an appraisal:

- Value is on an "as-is" basis and not subject to future improvements.
- Condition rating is C1 through C4. C5 and C6 are ineligible.

Two (2) appraisals are required if the loan amount is greater than \$1.5 million. For purchase transactions, if two (2) appraisals are required then the property value will be the lesser of; (i) the lower of the two (2) appraisals and (ii) the purchase price. For rate-term and cash-out refinance transactions, if two (2) appraisals are required then the property value will be the lesser of the two (2) appraisals. All inconsistencies between the two (2) appraisals must be addressed and reconciled.

Appraisals assigned from another lender are not acceptable.

### 6.2.2 Age of Appraisal

Properties must be appraised within the one-hundred twenty (120) days that precede the date of the closing of the mortgage loan.

### 6.2.3 Appraisal Forms

The most current industry accepted versions of the following forms as of the effective date of the appraisal will be accepted:

- **Uniform Residential Appraisal Report ("URAR")** (Fannie Mae Form 1004 / Freddie Mac Form 70): For use on one-unit property, including individual units in a PUD project. Units in condominium projects that consist solely of detached units may also use this form provided the appraiser provides an adequate description of the project, information about the HOA fees, and the quality of the project maintenance. Appraisals for detached condominiums in projects where there are both attached and detached units may not be completed on the URAR.
- **Market Conditions Addendum to the Appraisal Report** (Fannie Mae Form 1004MC / Freddie Mac Form 71): For use on all one-to-four unit properties with an effective date on or after April 1, 2009.
- **One-unit Residential Appraisal Field Review Report** (Fannie Mae Form 2000 / Freddie Mac Form 1032): For use on field reviews of one-unit single family properties.
- **Two-to-Four Unit Residential Appraisal Field Review Report** (Fannie Mae Form 2000A / Freddie Mac Form 1072): For use on field reviews of two-to-four unit residential properties.
- **Small Residential Income Property Appraisal Report** (Fannie Mae Form 1025 / Freddie Mac Form 72): For use on a two-to-four unit property, and includes PUD, condominium, or cooperative development projects.



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- **Individual Condominium Unit Appraisal Report** (Fannie Mae Form 1073 / Freddie Mac Form 465): For use on individual condominium units only.
- **Individual Cooperative Interest Appraisal Report** (Fannie Mae Form 2090): For use on individual cooperative units only.
- **Appraisal Update and/or Completion Report** (Fannie Mae Form 1004D / Freddie Mac Form 442): For use on Appraisal Update or Satisfactory Completion Certificates. A Recertification of Value is no longer accepted.
- **Single Family Comparable Rent Schedule** (Fannie Mae Form 1007/ FHLMC Form 1000): Required for loans on investment single family properties.
- **Operating Income Statement** (FNMA Form 1025/ FHLMC Form 998): Required for investment and two-to-four unit properties.
- **Exterior-Only Inspection Residential Appraisal Report** (FNMA Form 2055 / Freddie Mac Form 2055): Acceptable for Desktop Underwriter (DU)/Desktop Originator (DO) Approve/Eligible only.
- **Exterior Only Inspection Condominium Appraisal Report** (FNMA Form 1075 / Freddie Mac Form 466): Acceptable for DU/DO Approve/Eligible only.
- **Exterior Only Inspection Individual Cooperative Interest Appraisal Report** (FNMA Form 2095): Acceptable for DU/DO Approve/Eligible only.
- **Property Inspection** (FNMA Form 2075): Acceptable for DU/DO Approve/Eligible only.

Additionally, each of the appraisal reports described within this Section must be accompanied with documentation that meets the requirements of each Agency and that discloses the specifics about the property and value conclusion.

#### 6.2.4 Appraisal Review

A Collateral Desktop Analysis (“CDA”) from Clear Capital is required. A Seller has the option of establishing a relationship with Clear Capital and obtaining the CDA prior to closing the loan, or the Firm will order the CDA at the time of its due diligence review and will analyze the valuation provided within such CDA. If two (2) appraisals are required, the CDA should be ordered on the lower of the two (2) appraisals obtained. The CDA must be completed within the one-hundred twenty (120) days that precede the date of the closing of the mortgage loan.

The CDA result is subject to the following conditions:

- If the variance between the appraisal and the CDA is negative and exceeds ten percent (10%) (where the negative variance is greater than ten percent (10%) to the appraised value), then the loan is not eligible for purchase; provided, however, the Seller may request a Field Review be ordered for such mortgaged property to support the appraised value.
- If the negative variance still exceeds ten percent (10%) (where the negative variance is greater than ten percent (10%) to the appraised value), then the loan will remain ineligible for purchase.

The use of an appraisal review product does not relieve the Seller of its representations and warranties relating to the property and the appraisal, including the underwriting thereof.



The power of yes.

### **6.2.5 Appraisals for HPML**

For any loan that is determined to be a HPML under TILA, as may be amended from time-to-time, the Seller must have a written appraisal on the subject property obtained prior to the consummation of the loan, which meets the requirements of Title XI of FIRREA and its implementing regulations, as may be amended from time to time.

In addition to the general requirements for an appraisal to comply with Title XI of FIRREA, two (2) written appraisals completed by two (2) different appraisers are required for the following HPMLs:

- The property seller acquired the property within ninety (90) days prior to the date of the borrower's purchase agreement with the seller and the borrower's purchase price exceeds the property seller's acquisition price by more than ten percent (10%), or
- The property seller acquired the property between ninety-one (91) and one hundred and eighty (180) days prior to the date of the borrower's purchase agreement with the seller and the borrower's purchase price exceeds the property seller's acquisition price by more than twenty percent (20%).

Seller's locking and delivering a HPML that meets either of the two (2) prongs listed above must also ensure that the other requirements applicable to the additional required appraisal, including but not limited to any disclosure and the timing of such disclosure, as required by 12 C.F.R. §1026.35.

### **6.2.6 Properties Located in a Disaster Area**

For properties located in a FEMA declared disaster area, a re-inspection of the property is required to be performed by the original appraiser. A written certification is required from the appraiser to confirm that the property value has not been impacted by the disaster. For FEMA declared natural disasters, the inspection must be dated after the disaster end date as declared by FEMA.

## **6.3 Property Project Requirements**

### **6.3.1 Introduction**

Loans secured by condominium, PUD, or cooperative projects must satisfy the eligibility criteria described in the following subsections to be eligible for purchase by the Firm. For transactions requiring a Cooperative Questionnaire, PUD Eligibility Letter or Condominium Eligibility Letter, the questionnaire or eligibility letter cannot be more than ninety (90) days old at the time the note and mortgage are signed.

### **6.3.2 Project Requirements for Condominiums**

All mortgaged properties which are condominium units must comply with all published Agency guidelines. A Condominium Eligibility Letter (Appendix 7.1) is required to determine eligibility.

### **6.3.3 Condominium Project Review Classifications**

The Seller will perform a (i) Full Review for Established Projects, or (ii) Full Review for New Projects, based on the completion status and overall risk characteristics of the condominium project. New projects or projects with identified risk factors will require a more in-depth review than warrantable established projects.

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### 6.3.4 Project Completion Status and Review Criteria

The Seller is required to determine the completion status of the condominium project. A project is classified as either Established or New. The table below details the requirements to be considered Established, and under what circumstances a project will be considered New. If any one of the Established requirements is not met the project will be considered a New Project and will require a Full Review.

| Established Projects  | New Projects   |
|---|--|
| All of the following criteria must be met to be considered an Established Project:    | If any of the following criteria exist, the project must be considered a New Project:  |
| 1.90% or more of the total units in the project have been conveyed to unit purchasers | 1.Less than 90% of the total units in the project have been conveyed to unit purchasers  |
| 2.The project is 100% complete, including all units and common elements               | 2.The project is not fully completed, such as proposed construction, or the proposed or incomplete conversion of an existing building to a condo |
| 3. The project is not subject to additional phasing or annexation                     | 3.The project is a recent conversion, having converted within the last three (3) years   |
| 4. Control of the HOA has been turned over to the unit owners                         |  |

- Full Review for Established Projects

The criteria for Full Review include the following:

| Requirements                                     | Limited Review Criteria  |
|--|--|
| Project Completion Status                        | <b>Established</b>   |
| <b>Conveyed (%)</b>                              | ≥ 90%  |
| <b>Complete (%)</b>                              | 100%   |
| <b>All units, common elements, and amenities</b> |  |
| <b>Subject to Additional Phasing/Annexation</b>  | No   |
| <b>Control to Homeowners</b>                     | Yes  |
| <b>Eligible Occupancy Types</b>                  | Primary<br>Second Home   |
| <b>Occupancy Requirements</b>                    | Primary/Second Home: None  |
| <b>Fannie Mae Review Type Code</b>               | S and T  |
| <b>Review Documentation</b>                      | Condominium Eligibility Letter<br>Project Insurance<br>Appraisal Project Budget<br>Project Acceptance Certification (CPM)<br>Unexpired PERS Approval |



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The following requirements also apply:

- The project is not an ineligible project under this PEG;
- The project must meet the insurance requirements for hazard, flood, liability, and fidelity insurance required for condominiums in accordance with this PEG;
- The units in the project must be owned as fee simple;
- All rehabilitation work involved in a condo conversion must have been completed in a professional manner;
- For project conversions that did not involve gut rehabilitation (for example, renovation of a property down to the shell of the structure, including the replacement of all HVAC and electrical components), an engineer’s report must verify that all necessary repair(s) are complete and replacement reserves are adequate for all capital improvements; and
- For project conversions that were legally created during the past three (3) years, the architect’s or engineer’s report that was originally obtained for the conversion must comment favorably on the structural integrity of the project and the condition and remaining useful life of the major project components, such as the heating and cooling systems, plumbing, electrical systems, elevators, boilers, roof, etc.

**2–4 Unit Condominium Project Eligibility:** Condominium projects that consist of four or fewer units reviewed under a full or limited review will be eligible under the following additional conditions:

- No single entity (the same individual, investor group, partnership, or corporation) may own more than one unit within the project;
- All units, common elements, and facilities within the project, including those that are owned by any master association, must be one hundred percent (100%) complete;
- All but one unit in the project must have been conveyed to owner-occupant primary residence or second home purchasers; and
- The units in the project must be owned in fee simple, and the unit owners must be the sole owners of, and have rights to the use of, the project’s facilities, common elements, and limited common elements.
- Full Review for New Projects

The following table reflects the eligibility requirements for Full Reviews for New Projects:

| Requirements  | Full Review  |
|---|--|
| Project/Phase Conveyed (%)                                | Primary/Second Home: ≥ 51% conveyed or under contract  |
| Complete (%)<br>All units, common elements, and amenities | Substantially Complete<br>(CO issued, units complete except for installation of buyer selection items) |
| Subject to Additional Phasing/Annexation                  | No   |
| HOA Control to Homeowners                                 | No   |
| Eligible Occupancy Types                                  | Primary  |
| Occupancy Requirements                                    | Primary/Second Home: ≥ 51% of project must be owner-occupied primary residence or second home;         |
| Delinquent HOA  | Not Applicable   |
| Commercial Space Restrictions                             | ≤ 20% total square footage   |





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|                          |  |
|--------------------------|--|
| Single Entity Limitation | ≤ 10% of total units   |
| Exception Eligible       | No   |
| Review Documentation     | Questionnaire<br>Insurance<br>Appraisal<br>Budget<br>Legal Docs<br>Declaration of Condominium<br>Articles of Incorporation By-Laws |

The following additional requirements apply:

- The project, or subject legal phase, must be substantially complete. Substantially complete means a certificate of occupancy, or similar document, has been issued by the applicable governmental agency for the project or subject phase. All units in the subject building must be complete, subject to the installation of typical buyer selection items, such as appliances, floor coverings, counter tops, and/or light fixtures that are common and customary for the market;
- The project must not be an ineligible project under this PEG;
- The project must meet all insurance requirements for hazard, flood, liability, and fidelity insurance required for condominiums in accordance with this PEG;
- The units in the project must be owned as fee simple;
- The unit owners must be the sole owners of, and have rights to the use of, the project’s facilities, common elements, and limited common elements;
- The project must be located on one contiguous parcel of land and may not be divided by a public street;
- The structures within the project must be within a reasonable distance from each other;
- Common areas and facilities, such as recreation facilities and parking, must be consistent with the nature of the project and competitive in the marketplace; and
- If a new project is part of a larger development, and the unit owners are required to pay monthly assessments of more than fifty dollars (\$50) to a separate master association for that development. Sellers must review the overall development plan for the master association to evaluate the acceptability of the project.

i. Project Requirements for PUD

When reviewing a PUD project with attached units, whether new or established, the PUD Eligibility Letter (Appendix 7.2) is required to determine eligibility. The following requirements must be met:

- The project is not an ineligible project under this PEG;
- Insurance requirements for PUD projects must be met for title, hazard, liability (if a new project) and flood. Refer to Section 5 for complete insurance requirements; and
- The individual unit securing the mortgage is one hundred percent (100%) complete.

PUD projects are classified as either an established PUD project (Type E) or a new PUD project (Type F) in accordance with Agency guidelines. To be classified as an established project, the HOA must be turned over to the unit owners; if the HOA is still in control of the developer the project will be classified a new project.



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| Eligibility Criteria | Established (Type E)   | New (Type F)      |
|----------------------|--|-------------------|
| HOA Control          | Turned over to unit owners (no seasoning requirement for unit owners' control) | Developer Control |

ii. Project Requirements for Cooperatives

In order for a cooperative share loan to be eligible, the cooperative project in which the secured unit is located must meet certain requirements. The Cooperative Questionnaire (Appendix 7.3) is required to determine project eligibility, along with the cooperative corporation's budget, financial statements, and property appraisal. All mortgaged properties which are cooperatives must comply with all published Agency guidelines. In addition to the requirements of this PEG, the following requirements must be met for the project to be eligible:

- The cooperative corporation has been in existence for at least three (3) years;
- The cooperative must qualify as a "cooperative housing corporation" under Section 216 of the Internal Revenue Service Code;
- A cooperative project must be designed principally for residential use;
- Non-owner occupied cooperatives are ineligible;
- The cooperative project must consist of five (5) or more units;
- It must be located in an area that has a demonstrated market acceptance for the cooperative form of ownership as reflected by the availability of similar comparable sales for co-op units in the market area;
- The cooperative corporation must have marketable title to the property and must own the property in fee simple;
- The blanket project mortgage may be a market-rate FHA-insured mortgage or a conventional mortgage, but generally may not be a balloon mortgage with a remaining term of less than three years or a mortgage that provides for interest rate adjustments, unless as specified below;
- Any blanket mortgage for the project may be a balloon mortgage with a remaining term of less than three (3) years but not less than two (2) years, or a mortgage that provides for interest rate adjustments will be accepted so long as the amount of the borrower's monthly assessment will not be increased by more than ten percent (10%) assuming that:
  - For a Balloon Mortgage, at maturity such balloon mortgage is refinanced at the Balloon Refinance Rate, defined as the interest rate equal to five percent (5%) plus the market interest rate, determined by the Firm at the time the cooperative share loan is underwritten, for another balloon mortgage in substantially the same amount as the unpaid principal balance of the balloon mortgage being refinanced, upon substantially the same repayment terms as the balloon mortgage being refinanced, and secured by the same collateral as the balloon mortgage being refinanced;
  - For an Adjustable Rate Mortgage, on the third anniversary date on which the cooperative share loan is underwritten the interest rate on such adjustable rate mortgage achieves an interest rate equal to the lesser of (i) its lifetime interest rate ceiling or (ii) the Current



The power of yes.

Fully-Indexed Rate for such mortgage plus five percent (5%), or, in the absence of a specified lifetime interest rate ceiling, such adjustable rate mortgage achieves an interest rate equal to the Current Fully-Indexed Rate for such mortgage plus five percent (5%). The "Current Fully-Indexed Rate" is defined as the sum of the applicable index as of the date the related cooperative share loan is underwritten and the margin paid by the cooperative corporation, rounded to the nearest one eighth of one percent (0.125 %).

- The project may be newly constructed or the conversion of an existing building to a cooperative project, however, all construction and rehabilitation for the project must be completed in a professional manner:
  - For project conversions that did not involve gut rehabilitation (renovation of a property down to the shell of the structure, including the replacement of all HVAC and electrical components), an engineer's report must verify that all necessary repair(s) are complete and replacement reserves are adequate for all capital improvements; and
  - For project conversions that were legally created during the past three years, the architect's or engineer's report that was originally obtained for the conversion must comment favorably on the structural integrity of the project and the condition and remaining useful life of the major project components, such as the heating and cooling systems, plumbing, electrical systems, elevators, boilers, roof, etc.
- All construction must be complete, including common areas and facilities, and the project cannot be subject to additional phasing or annexations;
- The Pro Rata Share of the project debt does not exceed thirty-five percent (35%) of the sum of the related pro rata share of the project debt and the appraised equity interest value of the shares.

$$\text{Pro Rata Share} = \frac{\text{Blanket Mortgage Balance}}{\text{Total Outstanding Shares}} \times \text{Number of Subject Shares.}$$



The power of yes.

- A higher ratio, not to exceed forty percent (40%), may be used when there are fully documented compensating factors that justify using the higher ratio. For example, a higher ratio may be used when the cooperative project does not have any negative cashflow;
- At least fifty-one percent (51%) of the total units must be conveyed and occupied as primary residences;
- Other than the sponsor, no single entity may own more than ten percent (10%) of the stock or shares in the cooperative corporation and the related occupancy rights;
- For cooperative corporations where the sponsor has retained ownership in excess of ten percent (10%) the most recent amendment to the cooperative's offering plan filed with the New York Attorney General must be reviewed along with the most recent audited financial statement, current operating budget, and proposed operating budget for the following fiscal year, if any, and must demonstrate:
  - The sponsor is current on all financial obligations under the offering plan relating to the project;
  - The sponsor is current on all financial obligations relating to any other project in which the sponsor owns or holds more than ten percent (10%) of the units;
  - The sponsor has not pledged any of the shares of the cooperative project as security for any loan other than to secure, in whole or in part, the financing obtained by the sponsor to acquire the cooperative project;
  - Any negative cash flow (including, but not limited to, any principal and interest payments relating to the financing obtained by the sponsor to acquire the cooperative project) will not exceed an amount equal to five percent (5%) of the project's annual operating budget;
  - No more than fifteen percent (15%) of the cooperative unit owners are more than thirty (30) days delinquent in the payment of their financial obligations;
  - If the sponsor fails to pay the monthly assessments relating to all cooperative units owned by the sponsor, the monthly assessments of the cooperative share owners other than sponsor will not increase by more than ten percent (10%);
- Cooperatives that require the payment of a "flip tax" will be eligible so long as:
  - The "flip tax" is payable by the borrower when the sales price of the cooperative unit exceeds the borrower's purchase price and then only on the prorated portion of such excess (this "flip tax" is profit-based); or
  - The "flip tax" is based on (i) a flat fee, (ii) a fee per share, (iii) a percentage of the market value of the cooperative unit, or (iv) the dollar amount per room and is payable by the borrower whether or not the selling price exceeds the borrower's purchase price. When the amount of the "flip tax", determined in accordance with the clauses above, exceeds three percent (3%) of the cooperative unit's market value at the time the borrower sells the cooperative unit, the LTV applicable to the transaction must be reduced by the amount of the "flip tax" which exceeds three percent (3%) (for example, if the "flip tax" is five percent (5%) and the LTV is ninety percent (90%), then the LTV must be reduced by two percent (2%) to eighty-eight percent (88%)). When the amount of the "flip tax", determined in accordance with the clauses above, is equal to or less than three percent (3%) of the cooperative unit's market value at the time the borrower sells the cooperative unit, the LTV will not require adjustment;
- The project's operating budget must be consistent with the nature of the project, provide for adequate



The power of yes.

cash flow to service the current debt and operating expenses, and provide for adequate replacement and operating reserves;

- The project must have a good financial record, with no more than fifteen percent (15%) of the owners being more than one month delinquent in the payment of their financial obligations to the co-op corporation;
- Review of the cooperative corporation's financial statements must reflect the property is demonstrably well managed;
- If the project is professionally managed, the management contract must be for a reasonable term and its termination provision must not require the payment of a penalty or advance notice of more than ninety (90) days;
- The project may not be the recipient of any subsidies or similar benefits such as tax or assessment abatements that will terminate partially or fully within the next three years;
- The unit owners must be the sole owners of and have rights to the use of the project's facilities, common elements, and limited common elements;
- Facilities related to the project – such as parking, recreational facilities, etc. – must be owned by the co-op corporation. The developer or sponsor may not retain an ownership interest in any of them;
- Any commercial space in the project must be compatible with the overall residential nature of the project and should not be an inordinate amount of nonresidential space. The corporation's commercial space is limited to twenty percent (20%) of its total square footage;
- The Firm will not purchase a cooperative loan if the cooperative project is one of the types of ineligible projects as described within this PEG;
- Subordinate financing is generally not allowed on cooperatives, but will be considered on loan applications provided that all other requirements of this PEG are met and written approval of the subordinate financing from the Cooperative Board is provided within the mortgage loan documentation.

## 6.4 Ineligible PUD, Condominium, or Cooperative Projects

Mortgages that are to be secured by units in certain types of PUD, condominium, or cooperative projects, regardless of the characteristics of the unit mortgage may be ineligible for purchase by the Firm due to the characteristics of the project. Ineligible projects include the following:

- Any project that is managed and operated as a hotel or motel, even though the units are owned individually. Projects with any of the following characteristics are considered hotel-type projects, and are therefore, ineligible:
  - projects that include registration services and offer rentals of units on a daily basis;
  - projects with names that include the words "hotel" or "motel";
  - projects that restrict the owner's ability to occupy the unit;
  - projects with mandatory rental pooling agreements that require the unit owners to either rent their units or to give a management firm control over the occupancy of the units. These formal agreements between the developer, HOA, and/or the individual unit owners, obligate the unit owner to rent the property on a seasonal, monthly, weekly, or daily basis. In many cases, the agreements include blackout dates, continuous occupancy limitations, and other such use restrictions. In return, the unit



The power of yes.

owner receives a share of the revenue generated from the rental of the unit; and

- projects that include any of the following: central telephone system, room service, units that do not contain full-sized kitchen appliances, daily cleaning service, advertising of rental rates, restrictions on interior decorating, franchise agreements, central key systems, location of the project in a resort area, projects converted from a hotel or motel;
- Projects with non-incidentual business operations owned or operated by the HOA such as, but not limited to, a restaurant, spa, health club, etc.;
- Investment securities – projects that have documents on file with the Securities and Exchange Commission, or projects where unit ownership is characterized or promoted as an investment opportunity;
- Common interest apartments or community apartment projects – any project or building that is owned by several owners as tenants-in-common or by a HOA in which individuals have an undivided interest in a residential apartment building and land, and have the right of exclusive occupancy of a specific apartment in the building;
- Timeshare or segmented ownership projects;
- Houseboat projects;
- Manufactured housing projects;
- Condomotels;
- Multi-dwelling unit condominiums or cooperatives—projects that permit an owner to hold title (or stock ownership and the accompanying occupancy rights) to more than one dwelling unit, with ownership of all of his or her owned units (or shares) evidenced by a single deed and financed by a single mortgage (or share loan);
- Condominium or cooperative projects that represent a legal use of the land, if zoning regulations prohibit rebuilding the improvements to current density in the event of their partial or full destruction;
- A Tax-sheltered syndicate’s leasing to a cooperative or “leasing” cooperatives— projects that involve the leasing of the land and the improvements to the cooperative corporation, even if the cooperative corporation owns part of the building;
- Limited equity cooperatives—projects in which the cooperative corporation places a limit on the amount of return that can be received when stock or shares are sold.
- Cooperative projects with units that are subject to resale restrictions or located on land owned by community land trusts;
- Cooperative projects in which the developer or sponsor has an ownership interest (or other rights in the project real estate or facilities), other than the interest or rights it has in relation to unsold units;
- Any project for which the HOA or co-op corporation is named as a party to pending litigation or, any project 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 is ineligible. Litigation that involves minor matters are not considered ineligible projects; provided, that the pending litigation has no impact on the safety, structural soundness, habitability, or functional use of the project. The following are defined to be minor matters:
  - Non-monetary litigation involving neighbor disputes or rights of quiet enjoyment;
  - Litigation for which the claimed amount is known, the insurance carrier has agreed to provide the defense, and the amount is covered by the association’s or co-op corporation’s insurance; or
  - The HOA or co-op corporation is named as the plaintiff in a foreclosure action, or as a plaintiff in an action for past due HOA dues;
- New projects where the seller is offering sale/financing structures in excess of permitted limits. These excessive structures include, but shall not be limited to, builder/developer contributions, sales concessions, HOA or principal and interest payment abatements, and/or contributions not disclosed on the Closing Disclosure;



The power of yes.

- Projects where more than twenty percent (20%) of the total space is used for non-residential purposes;
- Projects where a single entity (the same individual, investor group, partnership, or corporation, except for the developer or sponsor during the initial marketing period) owns more than ten (10) percent of the total units in the project. In the case of a project that has fewer than ten (10) units, no single entity may own more than one (1) unit;
- Attached condominium and cooperative projects where more than fifteen percent (15%) of the total units in a project are thirty (30) days or more past due on their HOA dues/maintenance fees. For example, a one-hundred (100) unit project may not have more than fifteen (15) units that are thirty (30) days or more delinquent;
- Newly converted, non-gut rehabilitation condominium conversions are ineligible for financing; and
- Cooperatives and condominiums with less than four-hundred (400) square feet.

The power of yes.

## 7 Appendix: Forms

### 7.1 Condominium Eligibility Letter

#### CONDOMINIUM ELIGIBILITY LETTER

Applicant(s) \_\_\_\_\_

Application #: \_\_\_\_\_

Name: \_\_\_\_\_

Condo Project

Name: \_\_\_\_\_

Property

Address/Unit #: \_\_\_\_\_

#### TO WHOM IT MAY CONCERN:

We have been asked to approve a mortgage loan on the above unit. In an effort to fully document our files in regard to this matter, we hereby request that an authorized representative of the Owners Association complete and certify the following:

#### UNIT INFORMATION

Monthly Common

Charges: \$ \_\_\_\_\_

Monthly Special

Assessment: \$ \_\_\_\_\_

#### PROJECT INFORMATION

1. Is all phasing and annexation in the project complete?

If no, please explain current status of project:

Yes

No



2. Is construction of the project 100% complete, including all common areas and facilities?

If no, please describe work remaining to complete:

Yes

No



List any common areas other than greenbelts, open tennis courts, playgrounds.

| SUBJECT PHASE             |  | TOTAL PROJECT             |  |
|---------------------------|--|---------------------------|--|
| # of Units                |  | # of Phases               |  |
| # of Units Completed      |  | # of Units                |  |
| # of Units For Sale       |  | # of Units For Sale       |  |
| # of Units Sold           |  | # of Units Sold           |  |
| # of Units Rented         |  | # of Units Rented         |  |
| # of Owner Occupied Units |  | # of Owner Occupied Units |  |

3. Has control of the Home Owner's Association been transferred to the Home Owners?

If Yes, date turned over to owners:

Yes

No



The power of yes.

4. Is the project a conversion of an existing building?  
If Yes, please indicate conversion date:
- |  |                          |                          |
|--|--------------------------|--------------------------|
|  | Yes                      | No                       |
|  | <input type="checkbox"/> | <input type="checkbox"/> |

Was the conversion a "gut" rehab? (i.e. renovation down to the shell of the structure, HVAC and electrical replaced?)

- |  |                          |                          |
|--|--------------------------|--------------------------|
|  | Yes                      | No                       |
|  | <input type="checkbox"/> | <input type="checkbox"/> |

5. Does any one entity (individual or investor group) own more than one unit?

- |  |                          |                          |
|--|--------------------------|--------------------------|
|  | Yes                      | No                       |
|  | <input type="checkbox"/> | <input type="checkbox"/> |

Largest number of units owned by a single entity:

Number of units still owned by the Sponsor/Developer:

6. Number of units 30 days or more past due on homeowners' association dues:

7. Is the Owner's Association subject to any pending litigation?

- |  |                          |                          |
|--|--------------------------|--------------------------|
|  | Yes                      | No                       |
|  | <input type="checkbox"/> | <input type="checkbox"/> |

If yes, please explain:

8. Do any units within the project contain less than 400 square feet of living space?

- |  |                          |                          |
|--|--------------------------|--------------------------|
|  | Yes                      | No                       |
|  | <input type="checkbox"/> | <input type="checkbox"/> |

9. Is Project a Condo Hotel or offer hotel-like services?

- |  |                          |                          |
|--|--------------------------|--------------------------|
|  | Yes                      | No                       |
|  | <input type="checkbox"/> | <input type="checkbox"/> |

10. Is project a timeshare?

- |  |                          |                          |
|--|--------------------------|--------------------------|
|  | Yes                      | No                       |
|  | <input type="checkbox"/> | <input type="checkbox"/> |

11. Does any one mortgage include more than one condo unit?

- |  |                          |                          |
|--|--------------------------|--------------------------|
|  | Yes                      | No                       |
|  | <input type="checkbox"/> | <input type="checkbox"/> |

12. Is more than 20% of the total space used for non-residential purposes?

- |  |                          |                          |
|--|--------------------------|--------------------------|
|  | Yes                      | No                       |
|  | <input type="checkbox"/> | <input type="checkbox"/> |

If yes, please explain:

**PROJECT INSURANCE**

13. Hazard Insurance coverage is at least 100% replacement cost for the project with an inflation guard endorsement?

- |  |                          |                          |
|--|--------------------------|--------------------------|
|  | Yes                      | No                       |
|  | <input type="checkbox"/> | <input type="checkbox"/> |

14. Hazard Insurance coverage includes betterment coverage for each unit?

- |  |                          |                          |
|--|--------------------------|--------------------------|
|  | Yes                      | No                       |
|  | <input type="checkbox"/> | <input type="checkbox"/> |

15. Deductible on Hazard Insurance is no greater than \$10,000 or 1% of the coverage amount?

- |  |                          |                          |
|--|--------------------------|--------------------------|
|  | Yes                      | No                       |
|  | <input type="checkbox"/> | <input type="checkbox"/> |

16. General Business Liability Insurance is greater than or equal to one million dollars (\$1,000,000)?

- |  |                          |                          |
|--|--------------------------|--------------------------|
|  | Yes                      | No                       |
|  | <input type="checkbox"/> | <input type="checkbox"/> |

17. Does the master/blanket policy only insure the project in which this condominium is located?

- |  |                          |                          |
|--|--------------------------|--------------------------|
|  | Yes                      | No                       |
|  | <input type="checkbox"/> | <input type="checkbox"/> |

The power of yes.

18. Is Fidelity Bond Insurance coverage sufficient to cover the maximum funds that are in the custody of the homeowners' association or management agent at any time while policy is in force?
- |  |                          |                          |
|--|--------------------------|--------------------------|
|  | Yes                      | No                       |
|  | <input type="checkbox"/> | <input type="checkbox"/> |
- a. Is coverage sufficient to cover three months of assessments on all units?
- |  |                          |                          |
|--|--------------------------|--------------------------|
|  | Yes                      | No                       |
|  | <input type="checkbox"/> | <input type="checkbox"/> |
- b. Are separate bank accounts maintained for the working account and reserve account, each with appropriate access controls, and bank sends copies of the monthly statements directly to the homeowners' association?
- |  |                          |                          |
|--|--------------------------|--------------------------|
|  | Yes                      | No                       |
|  | <input type="checkbox"/> | <input type="checkbox"/> |
- c. Does the management Company maintain separate records and bank accounts for each homeowners' association it services and does not have authority to draw checks on or transfer funds from the homeowners' association reserve account?
- |  |                          |                          |
|--|--------------------------|--------------------------|
|  | Yes                      | No                       |
|  | <input type="checkbox"/> | <input type="checkbox"/> |
- d. Are at least two members of the Board of Directors required to sign any checks written on the reserve account?
- |  |                          |                          |
|--|--------------------------|--------------------------|
|  | Yes                      | No                       |
|  | <input type="checkbox"/> | <input type="checkbox"/> |
19. Amount of Fidelity Bond Insurance
- \$ \_\_\_\_\_
- a. Does Bond cover Condominium Association?
- |  |                          |                          |
|--|--------------------------|--------------------------|
|  | Yes                      | No                       |
|  | <input type="checkbox"/> | <input type="checkbox"/> |
- b. Does Bond cover Management Association?
- |  |                          |                          |
|--|--------------------------|--------------------------|
|  | Yes                      | No                       |
|  | <input type="checkbox"/> | <input type="checkbox"/> |

**NOTE: Please attach a copy of current certificate of insurance. If not available, please provide us with insurance contact information (Name and Phone Number).**

Management  
Company  
Self Manager

If management Company, date of management contract: \_\_\_\_\_

Expiration date of management contract: \_\_\_\_\_

Name of manager of Management

Company: \_\_\_\_\_

Address \_\_\_\_\_

City, State, Zip: \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_

Manager: \_\_\_\_\_

Phone: \_\_\_\_\_

eMail: \_\_\_\_\_

I hereby certify that the information provided above is correct to the best of my knowledge.

By: \_\_\_\_\_

Title: \_\_\_\_\_

Phone: \_\_\_\_\_

The power of yes.

## 7.2 PUD Eligibility Letter

### PUD ELIGIBILITY LETTER

Applicant(s) Name: \_\_\_\_\_ Application #: \_\_\_\_\_

PUD Project Name: \_\_\_\_\_

Property

Address/Unit #: \_\_\_\_\_

### TO WHOM IT MAY CONCERN:

We have been asked to approve a share loan on the above unit. In an effort to fully document our files in regard to this matter, we hereby request that an authorized representative of the managing agent, cooperative board, or project sponsor/developer complete and certify the following:

### APARTMENT INFORMATION

Apartment/Unit#: \_\_\_\_\_ Monthly Maintenance: \$ \_\_\_\_\_

Total Shares for \_\_\_\_\_ Monthly Operating

Unit: \_\_\_\_\_ Assessment: \$ \_\_\_\_\_

Monthly Tax Abatement (if

applicable): \$ \_\_\_\_\_

### PROJECT INFORMATION

13. How many units in the project have been sold within the last year?

e. Attach list of comparable sales for the subject unit indicating the following: Address, Number of Shares, Contract Date, Settlement Date, Seller, Lender, Size, Condition, and Monthly Management Fees

14. Does the Cooperative project include or own any commercial units?

a. If Yes, describe units:

Yes No

b. Overall percentage (square footage) of commercial space: \_\_\_\_\_ %

15. Number of shares issued and outstanding for the Cooperative Corporation:

16. Is the Sponsor or Builder/Developer in Control of the Cooperative Corporation?

Yes No

a. If No, date control turned over to Cooperative Corporation:

b. Has the developer or sponsor retained an ownership interest in any facilities?

Yes No

17. Is the sponsor or Builder/Developer offering any types of sales or financing concessions (such as, a maintenance fee rebate or credit, etc.) with the transfer of units in the project?

Yes No

If Yes, describe:

18. Are any of the project facilities leased to or by the Cooperative Corporation?

Yes No

If Yes, describe which facilities and note any fees for their use:

19. Is the subject project the recipient of any tax abatements or exemptions?

Yes No

If Yes, describe:

The power of yes.

Remaining term/Expiration: \_\_\_\_\_ Dollar amount: \$ \_\_\_\_\_

20. Are any of the units in the project subject to a stock transfer fee (such as, waiver of option fees, flip taxes, etc.)? Yes No

If Yes, describe:

21. How many owners of units in the project are more than one month delinquent in the payment of their financial obligations to the Cooperative Corporation?

22. Does any single entity own more than 10% of the stock or shares in the Cooperative Corporation and the related occupancy rights? If Yes describe Yes No

Name of Entity: \_\_\_\_\_ Number of Shares Owned: \_\_\_\_\_

11. Does the Cooperative Corporation qualify for tax deductibility under IRS Section 216? Yes No

12. Is construction 100% complete, including all common areas and facilities? Yes No

13. Is all phasing and annexation in the project complete? Yes No

14. Does the Cooperative Corporation offer hotel-like services? Yes No

15. Is project a timeshare? Yes No

16. Is any one share loan secured by two or more cooperative units that have not been legally combined into one dwelling unit? Yes No

17. Is there a limit on the amount of return that can be received when stock or shares are sold? Yes No

18. Is the project subject to resale restrictions or located on land owned by community land trusts? Yes No

19. Are there any legal actions pending against the Cooperative Corporation or its officers? If Yes, describe: Yes No

20. Does the cooperative Corporation have an ownership interest (or other rights in the project real estate or facilities), other than the interest or rights it has in relation to unsold units? Yes No

21. Are there any financing restrictions? Yes No  
 If Yes, please indicate the maximum level of such financing permitted by your Cooperative Corporation: \$ \_\_\_\_\_, or % of appraised value:

**PROJECT INSURANCE**

22. Hazard Insurance coverage is at least 100% insurable replacement cost for the project improvements, including the individual units, with an inflation guard endorsement? Yes No

23. Deductible on Hazard Insurance is no greater than 5% of the Yes No

The power of yes.

- face amount of the policy?  Yes  No
24. Flood Insurance coverage, if applicable, is at least 100% insurable replacement cost or at least the maximum coverage available under the national Flood Insurance Program?  Yes  No
25. Deductible on Flood Insurance does not exceed \$25,000?  Yes  No
26. General Business Liability Insurance is greater than or equal to \$1 million, or \$3 million if the project consist of elevator buildings?  Yes  No
27. Is Fidelity Bond Insurance coverage sufficient to cover the maximum funds that are in the custody of the co-op corporation or management agent at any time while policy is in force? If No:
- a. Is coverage sufficient to cover three months of assessments on all units?  Yes  No
- b. Are separate bank accounts maintained for the working account and reserve account, each with appropriate access controls, and bank sends copies of the monthly statements directly to the co-op corporation?  Yes  No
- c. Does the management company maintain separate records and bank accounts for each co-op corporation it services and does not have authority to draw checks on or transfer funds from the co-op corporation's reserve account?  Yes  No
- d. Are at least two members of the Board of Directors required to sign any checks written on the reserve account?  Yes  No
28. Amount of Fidelity Bond Insurance \$  Yes  No

**NOTE: Please attach a copy of current certificate of insurance. If not available, please provide us with insurance contact information (Name and Phone Number).**

**PROJECT BLANKET FINANCING**

|  | First | Second | Other( ) |
|--|-------|--------|----------|
| Lien Priority  |       |        |          |
| Lien Type (Mortgage, Line of Credit, wraparound, Etc.) |       |        |          |
| Mortgage Balance                                       | \$    | \$     | \$       |
| Balloon Mortgage (Y/N)                                 |       |        |          |
| Remaining Term   |       |        |          |
| Monthly Payment  | \$    | \$     | \$       |
| Interest Rate  | %     | %      | %        |
| Fixed/Variable Rate                                    |       |        |          |
| Lienholder   |       |        |          |

**PROJECT OCCUPANCY STATUS**

| Unit Ownership and Occupancy | # of Units | % of Project |
|------------------------------|------------|--------------|
| Owner Occupied               |            |              |
| Sponsor/Developer –Vacant    |            |              |

The power of yes.

|  |  |  |
|--|--|--|
| Sponsor/Developer – Tenant Occupied (Market Rent)    |  |  |
| Sponsor/Developer – Tenant Occupied (Regulated Rent) |  |  |
| Investor – Vacant                                    |  |  |
| Investor – Tenant Occupied (Market Rent)             |  |  |
| Investor – Tenant Occupied (Regulated Rent)          |  |  |
| <b>Total</b>   |  |  |

29. Management Company:

- a. Date of management contract:
- b. Expiration date of management contract:
- c. Termination provision requires penalty payment or more than 90 days advance notice?
 

|                          |                          |
|--------------------------|--------------------------|
| Yes                      | No                       |
| <input type="checkbox"/> | <input type="checkbox"/> |

I hereby certify that the information provided above is correct to the best of my knowledge.

Signature of Authorized

Representative:

Name of Authorized

Representative:

Name of Organization:

Address:

Phone Number:

eMail:

Date:

PLEASE ATTACH AND RETURN THE FOLLOWING:

- 1. Current Year Cooperative Corporation Budget**
- 2. Most Recent Cooperative Corporation's Financial Statements**
- 3. Insurance Certificate**

The power of yes.

### 7.3 Cooperative Questionnaire

#### COOPERATIVE QUESTIONNAIRE

Applicant(s) Name: \_\_\_\_\_ Application #: \_\_\_\_\_  
 Cooperative Project Name: \_\_\_\_\_  
 Property Address and Unit #: \_\_\_\_\_

#### TO WHOM IT MAY CONCERN:

We have been asked to approve a share loan on the above unit. In an effort to fully document our files in regard to this matter, we hereby request that an authorized representative of the managing agent, cooperative board, or project sponsor/developer complete and certify the following:

#### APARTMENT INFORMATION

Apartment/Unit#: \_\_\_\_\_ Monthly Maintenance: \$ \_\_\_\_\_  
 Total Shares for \_\_\_\_\_ Monthly Operating \_\_\_\_\_  
 Unit: \_\_\_\_\_ Assessment: \$ \_\_\_\_\_  
 Monthly Tax Abatement (if \_\_\_\_\_  
 applicable): \$ \_\_\_\_\_

#### PROJECT INFORMATION

1. How many units in the project have been sold within the last year?
  - f. Attach list of comparable sales for the subject unit indicating the following: Address, Number of Shares, Contract Date, Settlement Date, Seller, Lender, Size, Condition, and Monthly Management Fees
2. Does the Cooperative project include or own any commercial units?
 

|   |                          |                          |
|---|--------------------------|--------------------------|
|   | Yes                      | No                       |
| c. If Yes, describe units:  | <input type="checkbox"/> | <input type="checkbox"/> |
| d. Overall percentage (square footage) of commercial space: _____ % |                          |                          |
3. Number of shares issued and outstanding for the Cooperative Corporation:
4. Is the Sponsor or Builder/Developer in Control of the Cooperative Corporation?
 

|   |                          |                          |
|---|--------------------------|--------------------------|
|   | Yes                      | No                       |
| c. If No, date control turned over to Cooperative Corporation:                    | <input type="checkbox"/> | <input type="checkbox"/> |
| d. Has the developer or sponsor retained an ownership interest in any facilities? | <input type="checkbox"/> | <input type="checkbox"/> |
5. Is the sponsor or Builder/Developer offering any types of sales or financing concessions (such as, a maintenance fee rebate or credit, etc.) with the transfer of units in the project?
 

|  |                          |                          |
|--|--------------------------|--------------------------|
|  | Yes                      | No                       |
|  | <input type="checkbox"/> | <input type="checkbox"/> |

If Yes, describe:
6. Are any of the project facilities leased to or by the Cooperative Corporation?
 

|  |                          |                          |
|--|--------------------------|--------------------------|
|  | Yes                      | No                       |
|  | <input type="checkbox"/> | <input type="checkbox"/> |

If Yes, describe which facilities and note any fees for their use:
7. Is the subject project the recipient of any tax abatements or exemptions?
 

|  |                          |                          |
|--|--------------------------|--------------------------|
|  | Yes                      | No                       |
|  | <input type="checkbox"/> | <input type="checkbox"/> |

The power of yes.

If Yes, describe:

Remaining term/Expiration: Dollar amount: \$

8. Are any of the units in the project subject to a stock transfer fee (such as, waiver of option fees, flip taxes, etc.)? Yes  No

If Yes, describe:

9. How many owners of units in the project are more than one month delinquent in the payment of their financial obligations to the Cooperative Corporation?
10. Does any single entity own more than 10% of the stock or shares in the Cooperative Corporation and the related occupancy rights? If Yes describe Yes  No

Name of Entity: Number of Shares Owned:

- |  |                              |                             |
|--|------------------------------|-----------------------------|
|  | Yes                          | No                          |
| 11. Does the Cooperative Corporation qualify for tax deductibility under IRS Section 216?                                      | <input type="checkbox"/>     | <input type="checkbox"/>    |
| 12. Is construction 100% complete, including all common areas and facilities?  | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| 13. Is all phasing and annexation in the project complete?   | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| 14. Does the Cooperative Corporation offer hotel-like services?  | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| 15. Is project a timeshare?  | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| 16. Is any one share loan secured by two or more cooperative units that have not been legally combined into one dwelling unit? | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| 17. Is there a limit on the amount of return that can be received when stock or shares are sold?                               | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| 18. Is the project subject to resale restrictions or located on land owned by community land trusts?                           | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| 19. Are there any legal actions pending against the Cooperative Corporation or its officers? If Yes, describe:                 | Yes <input type="checkbox"/> | No <input type="checkbox"/> |

- |   |                              |                             |
|---|------------------------------|-----------------------------|
| 20. Does the cooperative Corporation have an ownership interest (or other rights in the project real estate or facilities), other than the interest or rights it has in relation to unsold units? | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| 21. Are there any financing restrictions?   | Yes <input type="checkbox"/> | No <input type="checkbox"/> |

If Yes, please indicate the maximum level of such financing permitted by your Cooperative Corporation: \$ \_\_\_\_\_, or % of appraised value:



**PROJECT INSURANCE**

- |   |                                   |                                |
|---|-----------------------------------|--------------------------------|
| 22. Hazard Insurance coverage is at least 100% insurable replacement cost for the project improvements, including the individual units, with an inflation guard endorsement?  | Yes<br><input type="checkbox"/>   | No<br><input type="checkbox"/> |
| 23. Deductible on Hazard Insurance is no greater than 5% of the face amount of the policy?  | Yes<br><input type="checkbox"/>   | No<br><input type="checkbox"/> |
| 24. Flood Insurance coverage, if applicable, is at least 100% insurable replacement cost or at least the maximum coverage available under the national Flood Insurance Program?   | Yes<br><input type="checkbox"/>   | No<br><input type="checkbox"/> |
| 25. Deductible on Flood Insurance does not exceed \$25,000?   | Yes<br><input type="checkbox"/>   | No<br><input type="checkbox"/> |
| 26. General Business Liability Insurance is greater than or equal to \$1 million, or \$3 million if the project consist of elevator buildings?  | Yes<br><input type="checkbox"/>   | No<br><input type="checkbox"/> |
| 27. Is Fidelity Bond Insurance coverage sufficient to cover the maximum funds that are in the custody of the co-op corporation or management agent at any time while policy is in force? If No:                                 | Yes<br><input type="checkbox"/>   | No<br><input type="checkbox"/> |
| a. Is coverage sufficient to cover three months of assessments on all units?  | Yes<br><input type="checkbox"/>   | No<br><input type="checkbox"/> |
| b. Are separate bank accounts maintained for the working account and reserve account, each with appropriate access controls, and bank sends copies of the monthly statements directly to the co-op corporation?                 | Yes<br><input type="checkbox"/>   | No<br><input type="checkbox"/> |
| c. Does the management company maintain separate records and bank accounts for each co-op corporation it services and does not have authority to draw checks on or transfer funds from the co-op corporation's reserve account? | Yes<br><input type="checkbox"/>   | No<br><input type="checkbox"/> |
| d. Are at least two members of the Board of Directors required to sign any checks written on the reserve account?   | Yes<br><input type="checkbox"/>   | No<br><input type="checkbox"/> |
| 28. Amount of Fidelity Bond Insurance   | \$Yes<br><input type="checkbox"/> | No<br><input type="checkbox"/> |
|   | Yes<br><input type="checkbox"/>   | No<br><input type="checkbox"/> |

The power of yes.

**NOTE: Please attach a copy of current certificate of insurance. If not available, please provide us with insurance contact information (Name and Phone Number).**

**PROJECT BLANKET FINANCING**

|  | <b>First</b> | <b>Second</b> | <b>Other( )</b> |
|--|--------------|---------------|-----------------|
| Lien Priority  |              |               |                 |
| Lien Type (Mortgage, Line of Credit, wraparound, Etc.) |              |               |                 |
| Mortgage Balance                                       | \$           | \$            | \$              |
| Balloon Mortgage (Y/N)                                 |              |               |                 |
| Remaining Term   |              |               |                 |
| Monthly Payment  | \$           | \$            | \$              |
| Interest Rate  | %            | %             | %               |
| Fixed/Variable Rate                                    |              |               |                 |
| Lienholder   |              |               |                 |

**PROJECT OCCUPANCY STATUS**

| <b>Unit Ownership and Occupancy</b>                  | <b># of Units</b> | <b>% of Project</b> |
|--|-------------------|---------------------|
| Owner Occupied                                       |                   |                     |
| Sponsor/Developer –Vacant                            |                   |                     |
| Sponsor/Developer – Tenant Occupied (Market Rent)    |                   |                     |
| Sponsor/Developer – Tenant Occupied (Regulated Rent) |                   |                     |
| Investor – Vacant                                    |                   |                     |
| Investor – Tenant Occupied (Market Rent)             |                   |                     |
| Investor – Tenant Occupied (Regulated Rent)          |                   |                     |
| <b>Total</b>   |                   |                     |

29. Management Company:

- d. Date of management contract:
- e. Expiration date of management contract:
- f. Termination provision requires penalty payment or more than 90 days advance notice?
 

|                          |                          |
|--------------------------|--------------------------|
| Yes                      | No                       |
| <input type="checkbox"/> | <input type="checkbox"/> |

I hereby certify that the information provided above is correct to the best of my knowledge.

Signature of Authorized

Representative:

Name of Authorized

Representative:

Name of Organization:

The power of yes.

Address:

Phone Number:

eMail:

Date:

**PLEASE ATTACH AND RETURN THE FOLLOWING:**

- 1. Current Year Cooperative Corporation Budget**
- 2. Most Recent Cooperative Corporation's Financial Statements**
- 3. Insurance Certificate**

## Version History

| Date              | Version | Description of Material Changes   | Contributor(s)   |
|-------------------|---------|---|------------------|
| January 31, 2018  | 1.0     | Final   | Mortgage Finance |
| December 12, 2018 | 2.0     | Final <ul style="list-style-type: none"> <li>• Removed Plus Programs</li> <li>• Established a 12-month seasoning requirement of non-purchase second lien mortgage loans paid off through a rate and term refinancing</li> <li>• Lowered the seasoning from 12 months to 6 months of when a property may be eligible for a cash out refinancing mortgage loan</li> <li>• Increased Second Appraisal Requirement Threshold to \$1.5MM</li> <li>• Amended the CDA Variance requirement for Investment Properties from 5% to 10% for all loans</li> </ul> | Mortgage Finance |
| April [ ], 2020   | 3.0     | Final <ul style="list-style-type: none"> <li>• Programmatic product updates</li> <li>• Revised seasoning requirements for Purchase and Rate and Term Refinance Loans</li> <li>• Included Cash Out Refinance Loans</li> </ul>  | Mortgage Finance |
| Aug [ ], 2020     | 4.0     | Final <ul style="list-style-type: none"> <li>• Revised Eligible Loan Products Grid</li> <li>• Revised verbal VOE requirement</li> <li>• Revised second home cash out amount</li> <li>• Included Investment Properties</li> </ul>  |                  |

