

Rainier			
LTV/CLTV MATRIX - Owner Occupied			
Loan Amount	Credit Score	Purchase Rate & Term	Cash-Out
≤ \$2,000,000	700	80%	75%
≤ \$2,500,000	700	70%	65%
LTV/CLTV MATRIX - 2nd Home & Non-Owner Occupied			
Loan Amount	Credit Score	Purchase Rate & Term	Cash-Out
≤ \$2,000,000	700	75%	70%

Rainier				
TRANSACTION				
Available Products	Product	Qualifying Rate	Term	I.O. Term
	15 Year Fixed	Note Rate	180	N/A
	30 Year Fixed	Note Rate	360	N/A
	30 Year Fixed I.O.	Note Rate	360	120
Minimum Loan Amount	\$100,000 \$159,500 for loans in Missouri			
Prepayment Penalty	Prepayment penalties allowed on Non-Owner occupied properties only. Prepayment penalty is 5% PPP Program - Prepayment penalty charge is 5.000% of the amount prepaid. PPP Not Allowed in the following states: - Alabama, Arkansas, DC, Illinois, Kansas, Kentucky, Louisiana, Maryland, Michigan, Minnesota, Ohio, Oklahoma, South Carolina, Vermont, West Virginia PPP Allowed in the following states w/ restrictions: - North Carolina: Allowed for loan amounts > \$150,000 - New Jersey: Allowed only if closing in LLC or Corp - Iowa: Allowed on 3-4 units only - Maine and Indiana: Allowed only if fixed rate - Prepayment penalties not allowed if property is one or two units and the loan amount is under \$319,777 in PA			
Non-Owner Transactions with a Prepayment Penalty	- Borrower(s) must sign Business Purpose Affidavit at closing - If loan is cash out, cash out proceeds can only be used for the business purpose of owning rental properties: acquire, manage and improve real estate - Ineligible Tenants: Family member or related individual to borrower			
Escrow Holdbacks	Not allowed			
Secondary Financing	Allowed - See LTV/CLTV grid Junior financing can be lender or seller provided and must meet the requirements as defined by Fannie Mae Junior financing used for purchase or fixed 2nd's seasoned for 12 months can be paid off for transaction to be considered rate & term. If junior financing is a HELOC, total draws within previous 12-months cannot exceed the lesser of 2% or \$5,000 to be considered rate & term.			
PACE / HERO Loans	Follow FNMA Any energy efficiency-based liens, like PACE or HERO, when paid off through loan proceeds, the transaction is treated like a rate & term Cannot be subordinated			

Property Type	<p>Single Family (attached and detached)</p> <p>PUD</p> <p>Warrantable Condo - in established projects only</p> <p>2 - 4 Units</p>
IPC (Interested Party Contributions)	<p>Interested Party Contributions (IPC)</p> <ul style="list-style-type: none"> - Owner Occupied & 2nd Homes - 9% allowed for LTVs $\leq 75\%$ - 6% allowed for LTVs $> 75\%$ - Non-Owner Occupied - 6% allowed for all LTVs <p>Note: A seller credit with a concurrent sales price increase is allowed, however, the seller credit amount will be deducted from the sales price for LTV purposes.</p>
Cash Out Ownership Seasoning	<p>Property must be owned a minimum of 6 months at note date to be eligible for cash out.</p> <p>See delayed financing for properties owned less than 6 months.</p>
Delayed Financing	<p>Properties purchased with cash, or debt not secured to the subject property, within the past) months (measured from the purchase date of the property to the disbursement date of the new loan) are eligible for a cash-out refinance. Cash-out equity withdrawal not restricted to guideline maximums.</p>
LTV Determination	<p>Rate & Term - use current appraised value</p> <p>Cash-Out owned ≥ 6 months - use current appraised value</p> <p>Cash-Out owned < 6 months (delayed financing) - use lesser of acquisition cost or appraised value (see delayed financing)</p>
Maximum Cash-Out	<p>$> 70\%$ LTV up to \$500,000 allowed</p> <p>$\leq 70\%$ LTV up to \$1,000,000 allowed</p> <p>$\leq 50\%$ LTV unlimited cash out allowed</p>
BORROWERS	
Eligible Borrowers	<p>US Citizens</p> <p>Permanent Resident Alien</p> <p>Non-Permanent Resident Alien</p>
Non-Permanent Resident Standard	<p>Non-Permanent Resident Alien: Standard</p> <ul style="list-style-type: none"> - Visa types allowed E-1, E-2, E-3, EB-5, G-1 through G-5, H-1, L-1, L-2, NATO, O-1, R-1, TN NAFTA - Visas must be current and have at least 6 months remaining from the close date, if less than 6) months provide evidence that extension has been requested

<p>Non-Permanent Resident Non-Standard</p>	<p>Non-Permanent Resident Alien: Non-Standard</p> <p>Any residency status that meets FNMA guidelines is allowed provided the requirements listed below are met:</p> <ul style="list-style-type: none"> - Visas/EAD must be current and have at least 6 months remaining from the close date, if less than 6 months provide evidence that extension has been requested - Must have a min of 2 years residency, credit, and employment history in the US and qualifying income is based on the 2 years income, the 2 year history is measured by note date - The requirement for residency, Credit, employment may be reduced to 1 year with AUS Approve/Ineligible (Ineligible for loan amount, DTI and/or reserves)
<p>Entity Vesting</p>	<p>Entity vesting is allowed on non-owner occupied only, the following are required</p> <ul style="list-style-type: none"> - Entity type is LLC or Corporation - Borrower(s) must represent a minimum of 50% of the entity ownership - 4 borrower MAX - U.S. domiciled entities only - Purpose of entity must be for real estate acquisition - ACH Required - Borrower(s) must sign a personal guarantee <p>Documentation verifying the following must be provided.</p> <p>For LLC:</p> <ul style="list-style-type: none"> - Verify entity membership with formation docs or other entity documentation - Provide federal licensing entity ID number (EIN) - Show the entity is in good standing <p>For Corporations:</p> <ul style="list-style-type: none"> - Filed Certificate/Articles of Incorporation and all amendments (or equivalent) - By-Laws and all amendments - Evidence of good standing <ul style="list-style-type: none"> - Good standing is always required for the state in which the entity was formed (e.g., Certificate, screen shot from state website) - EIN/Tax Identification Number - Borrowing Resolution/Corporate Resolution granting authority of signer to enter loan obligation - Receipt of current year franchise tax payment, clear search, or evidence the state does not require a franchise tax payment

First Time Home Buyer	<p>Defined as borrowers who have not owned residential property in the past 3 years</p> <p>If 1 borrower is an FTHB and the other borrower is not, then FTHB guidance does not apply Property owned outside of the US is not considered in the FTHB determination</p> <ul style="list-style-type: none"> - All occupancy types allowed - Subject rents on investment property transaction not allowed <p>Max Loan Amount = \$2,000,000</p> <p>> 40% DTI 300% max payment shock</p> <p>Payment Shock = (Proposed Housing Payment / Present Housing Payment) * 100</p> <p>- For borrowers with no housing obligation in the previous 12 months, payment shock calculation is not required</p>
Multiple Properties Owned	The maximum number of residential 1-4 unit properties owned (financed or free and clear) is 4
Max Exposure to Newfi	<p>The max exposure to Newfi for any 1 borrower is 8 loans or \$5,000,000 UPB</p> <p>The max exposure rule is not automatic. The loans should not be secured to properties in the same micro-geographic area, for example, same block, subdivision, PUD project, or condo project. Each scenario is reviewed on its own merit and particular characteristics.</p>
Non-Occupant Co-Borrowers	<p>Purchase and Rate/Term only</p> <p>Cash-Out transactions are not allowed</p> <p>Blended Ratios are allowed using one of the three following options:</p> <p>Option 1:</p> <ul style="list-style-type: none"> - Occupying borrower must have a DTI <= 60% AND - a minimum of 5% of the down payment must come from occupying borrower's own funds AND - occupant borrower is responsible for 50% of the reserve requirement <p>Option 2:</p> <ul style="list-style-type: none"> - Occupying borrower must have a DTI <= 75% with combined DTI <= 40% AND - a minimum of 5% of the down payment must come from occupying borrower's own funds AND - occupant borrower is responsible for 50% of the reserve requirement <p>Option 3:</p> <ul style="list-style-type: none"> - True blended ratios are allowed at <= 75% LTV/CLTV - No occupant contribution required for down payment or reserves

Non-Arm's Length	<p>The following NAL's are eligible with proper documentation:</p> <p>Sale or transfers between members of the same family (transaction may not be due to any adverse circumstances)</p> <p>Property seller acting as his or her own real estate agent</p> <p>Borrower purchasing from his or her current landlord (cancelled checks or bank statements required to verify satisfactory pay history)</p> <p>Borrower is a mortgage broker or loan officer, or works for submitting broker.</p> <p>Borrower is related to realtor and/or loan officer who is representing them only.</p> <p>Investment property loans must be arms length</p>
CREDIT & LIABILITIES	
Credit Score	<p>BORROWER CREDIT SCORE</p> <ul style="list-style-type: none"> - For borrowers with 3 scores, the middle score is used - For borrowers with 2 scores, the lower score is used <p>TRANSACTION CREDIT SCORE</p> <p>The transaction credit score used for eligibility and pricing is determined as follows</p> <ul style="list-style-type: none"> - The borrower credit score of the primary income producer is used - For transactions where 2 or more borrowers have the same income level, the lowest borrower credit score is used - For Asset Depletion and Asset Utilization the lowest borrower credit score is used <p>Note: Independent of which score is used for the Transaction Credit Score, a minimum 620 Borrower Score is required for all borrowers.</p>
Age of Credit Docs	<p>Appraisal and title valid for 120-days from note date</p> <p>Credit, Income, and Assets valid for 120-days from note date</p> <p>YTD P&L age limit is 120-days</p>
Housing Payment History	Maximum of 0x30 in past 24 months

Mortgage/Rental Verification	<p>Institutional Lender/ Landlord</p> <p>Payment history may be documented as follows:</p> <ul style="list-style-type: none"> - 24 months mortgage payment history on the credit report OR - 24 months canceled checks OR - Verification of Mortgage (VOM)/ Verification of Rent (VOR) - Verifying housing payments, not reported on the credit report, can be eliminated if the following is present: <ul style="list-style-type: none"> - File receives an AUS approve (AUS should be provided by broker, must reasonably match transaction terms) <p>Non-Institutional Lender/ Landlord</p> <ul style="list-style-type: none"> - Payments must be verified with either canceled checks or bank statements AND - A copy of the note or lease is required to verify payment amount and due date - Verifying housing payments can be eliminated if the following is present: <ul style="list-style-type: none"> - File receives an AUS approve (AUS should be provided by broker, must reasonably match transaction terms)
Forbearance	<p>Forbearance allows for borrower experiencing financial hardship to pause making mortgage payments. A recent forbearance, due to COVID-19, may be eligible based upon the following:</p> <ol style="list-style-type: none"> 1. Borrowers who entered into forbearance but continued to make timely payments and remained employed without income disruption, are eligible without any other requirements. 2. Borrowers who participated in forbearance and missed payments have two options: <ol style="list-style-type: none"> a) Pay loan current by making all missed payments from borrower verified funds. b) Make three monthly payments in lender modification plan after exiting forbearance. Third payment must be made prior to note date. Evidence the borrower has exited forbearance or entered the modification plan is required. <p>This forbearance guidance applies to all open mortgage accounts</p>
Major Credit Events	<p>4 year seasoning is required on all major credit events</p> <p>Seasoning is measured from date of credit event to note date and includes: Bankruptcy, Foreclosure, Deed-in-Lieu, Short-Sale / Short-Refinance, and Modification</p> <p>Simple rate reduction modifications or modifications that were a result of a COVID-19 forbearance plan are acceptable with no restrictions</p>
Credit Report Security Freeze	<p>If the credit report shows a security freeze and the borrower unfreezes credit after the date of the original credit report, a new report is required to reflect current and updated information</p>

Collections & Charge Offs

Collection and charged-off accounts that do not impact title do not need to be paid off if:

- Individual accounts less than \$500 and cumulative balance \$2,500 or less
- Medical collections up to \$10,000 cumulative
- Collections and charge-offs that have passed the individual state statute of limitations
- A balance on a charged-off mortgage does not need to be addressed unless attached to our subject property

Collections and charge-offs not excluded by one of the above 3 exceptions must be paid or may remain open with the following

- Payments for open charge-offs or collections are included in the DTI (subject to program DTI restrictions). If a payment amount is not known, 5% of the balance may be used as the payment AND/OR
- Reserves are sufficient to cover the balance of the charge-offs or collections and meet reserve requirements

*Note: A combination of reserves and debt service can be used to address open balances. For example: \$10,000 collection balance can be addressed by \$5,000 extra reserves and \$5,000 debt serviced at \$250 per month.

<p>Required Credit History</p>	<p>If the <u>primary wage earner has 3 credit scores</u>, the minimum tradeline requirement is met.</p> <p>Note: if the credit scores are derived from thin credit, for example authorized user accounts or new accounts with minimal usage, the borrower will need to qualify with one of the four options below.</p> <p>If the <u>primary wage earner has only 2 scores</u>, one of the following 4 options must be met.</p> <p>Multiple borrowers with the same income need to meet either the 3 credit score threshold or meet 1 of the minimum tradeline requirements listed below.</p> <p>Primary wage earner ONLY must meet tradeline requirement</p> <p>Tradelines with recent serious adverse history are not acceptable</p> <p>Rental verification can be included as a tradeline</p> <p>Student loans can be counted in credit depth as long as they are in repayment and not being deferred</p> <p>Option #1 - 3 of 12: At least 3 tradelines reporting for a minimum of 12 months, with all 3 having activity in the last 12 months, accounts can be open or closed</p> <p>Option #2 - 2 for 24: At least 2 tradelines reporting for a minimum of 24 months, with both having activity in the last 12 months, accounts can be open or closed</p> <p>Option #3 - 8 for 8: No fewer than 8 tradelines are reporting, 1 of which must be a mortgage or a rental history.</p> <ul style="list-style-type: none"> - At least 1 tradeline has been open and reporting for a minimum of 12 months. - The borrower has an established credit history for at least 8 years. <p>Option #4 - AUS 4 for 4: AUS approval and no fewer than 4 tradelines are reporting, 1 of which must be a mortgage or a rental history.</p> <ul style="list-style-type: none"> - At least 1 tradeline has been open and reporting for a minimum of 12 months. - There is an established credit history of at least 4 years. - Requirements can be met by primary borrower or 2 combined borrowers on same application. <p>Please note: a satisfactorily documented housing history, not reported on the credit report, can be used to meet the tradeline minimums. If the AUS is used in lieu of documenting private housing payments, it cannot be considered as a tradeline for the purposes of meeting the</p>
--------------------------------	---

Installment Debt	<ul style="list-style-type: none"> - The monthly payment may be excluded from the DTI calculation provided there are 10 or fewer payments remaining, and the payment does not exceed 5% of the borrower's qualifying income - Paying down installment debt to 10 payments or less to qualify is allowed with a DTI < 40% - Business debt in borrower's name may be excluded with documentation to verify that the business has made 6 months of timely payments and the debt is accounted for as an expense in the business tax returns. Only allowed with full documentation income - Student loans, whether deferred, in forbearance, or in repayment, .5% of the unpaid balance or the actual documented payment - To exclude contingent mortgage liabilities, document that the individual making the payment is also obligated on the mortgage and document most recent 12 months timely payments - Timeshares are considered installment debt, not a mortgage - Non-mortgage debt paid by others can be excluded if evidence of 12 months of timely payments are provided showing another party is paying
Revolving Debt	<p>The minimum payment on the credit report or current statement is used in the DTI calculation:</p> <ul style="list-style-type: none"> - Revolving debt may not be paid down to qualify - Revolving debt may be excluded if account is paid off, funds used to pay off account must be verified - If there is no minimum payment amount is listed on the credit report and no supplemental documentation to support a payment is provided, then use the greater of \$10.00 or 5% of the outstanding balance - Business debt in borrower's name may be excluded with documentation to verify that the business has made 6 months of timely payments and the debt is accounted for as an expense in the business tax returns. Only allowed with full documentation income - Non-mortgage debt paid by others can be excluded if evidence of 12 months of timely payments are provided showing another party is paying
Paying Off Debt to Qualify	<p>Revolving accounts may be excluded if paid to zero - Account does not need to be closed Installment debt may be excluded if paid off and closed Paying down an installment loan to 10months is allowed - Max DTI 40%</p>

ASSETS	
Business Funds	<p>May be used for down payment and reserves on all income types with the following:</p> <ul style="list-style-type: none"> - Business funds may be used up to the borrower's percentage of ownership - If account co-owner is also an owner or purchaser of the subject property, then assets can be used to the combined percentage of ownership - Perform a cash flow analysis to determine that the use of business funds will not have a negative impact on the business, if income from the business is being used to qualify - Analysis of large deposits is generally not required, however, any recent large deposits outside the trend that approximate the required funds to close should be addressed to ensure they are not borrowed funds
Gift Funds	<p>Min 5% Borrower contribution required for Primary Residence & 2nd Home with LTV > 75%. Minimum 10% Borrower contribution required for NOO.</p> <p>Gift funds must be from a family member, fiancé, or domestic partner</p> <p>Gift funds not acceptable for reserves</p>
Commission Earned on Transaction	<p>Commission earned from subject transaction by borrower who is a realtor or loan officer are considered to be seasoned funds usable for downpayment, closing costs, and reserves</p>
Crypto Currency	<p>Crypto currency that has been converted to USD is an acceptable source of funds provided the crypto can be acceptably documented. Recently this asset type has gained more widespread popularity and documentation has improved. The documentation must show the acquisition date of the asset and it must show a sufficient history to meet 60-day seasoning requirements. Not all crypto currencies or crypto brokerages will provide for adequate documentation. An abundance of care must be used in reviewing statements provided.</p>
Reserves	<p>All reserve requirements are based on subject property PITI or ITI if applicable</p> <p>If transaction fits 2 categories listed below, only the larger requirement applies</p> <p>Loan proceeds may be used to meet the reserve requirement</p> <ul style="list-style-type: none"> - 3 months PITI required for loan amounts of <= \$750,000 - 6 months PITI required for loan amounts of <= \$1.5MM - 9 months PITI required for loan amounts > \$1.5MM <p>Additional 2 months PITI on subject property when using 1007 rents with no lease</p>

Acceptable Sources of Reserves	<ul style="list-style-type: none"> - Funds in non-cash holdings (stocks, bonds, mutual funds) are not required to be discounted. - Cash surrender value of life insurance, annuities, etc. - Retirement accounts used for reserves. <ul style="list-style-type: none"> - Employer sponsored savings plans (like a 401k) require TOW from employer which allow for hardship withdrawal (not required for IRA) - Cash-Out proceeds
Unacceptable sources for Reserves	<ul style="list-style-type: none"> - Funds in a 1031 exchange account - Gift funds
INCOME	
Debt to Income Ratios (DTI)	Max 45% DTI, unless otherwise noted
Variable Income Overtime/Bonus/Commission	<ul style="list-style-type: none"> - Income may be used on 1 or 2 year documentation type - A Written Verification of Employment (WVOE) is required to show the breakdown of the income types - Variable income earned for less than one year may not be used - Variable income is averaged over the most recent 2 years + YTD or 1 year + YTD, however, if the most recent 12 months, or YTD, is lower, the income is averaged over the shorter period
1099 Documented No Expenses (Full Doc)	<p>This option is designed for borrowers who are engaged as contractors and provide labor only.</p> <p>This borrower can be treated like a wage earner, and 1040 is not required. There is no minimum or maximum amount of time the borrower is required to have been a contractor. Documentation must be provided that the borrower will not be responsible for any additional expenses, for example, a letter from the employer, a WVOE, or the employment contract. Other conclusive documentation may be acceptable.</p> <p>Document the income amount and the current receipt of income with pay vouchers, bank statements, employment contract, WVOE, etc. Full amount of 1099 payouts can be used.</p> <p>Requirements:</p> <ul style="list-style-type: none"> - YTD earnings validated by paystubs, pay vouchers, WVOE, etc. - Documentation from employer that borrower has no job-related expenses - If the borrower has an entity in place to accept payments, document the borrower is sole owner of the entity

Trust Income	<p>Obtain a copy of the trust agreement, or the trustee's statement, confirming the amount, frequency, and type of income being received. Note: A borrower who is also a trustee may not supply the trustee's statement.</p> <p>Trust Distributions with fixed payments Document current receipt of trust income with one month's bank statement or other equivalent documentation. Payments must have been received for 12 months or longer to be considered stable monthly income, unless the following requirements are met:</p> <ul style="list-style-type: none"> - the trust documentation reflects fixed payments, - the borrower is not the grantor, and - at least one payment is received prior to closing <p>Trust Distributions with Variable payments Document the following:</p> <ul style="list-style-type: none"> - a minimum 24-month history of trust income by obtaining copies of the borrower's signed federal tax income tax returns for the most recent two years, and - current receipt of trust income with one month's bank statement or other equivalent documentation
Restricted Stock Units (RSUs)	<p>RSU income allowed with the following requirements listed below:</p> <ul style="list-style-type: none"> - Company issuing the RSU must be publicly traded - RSU have been received for the prior 1 year - Must be likely to continue for the next 3 years, based on application date - Borrower must be employed at the same company that issued the RSU being used for income purposes <p>Calculating RSU qualifying income: Multiply the 200-day moving average stock price, by the number of vested shares distributed to the borrower in the most recent 12 months, then divide by 12. Example: if 100 vested shares were distributed in the past 12 months and the 200-day moving average stock price is \$125, multiply 100 x \$125, then divide by 12 =\$1,041.67 monthly income</p>

Max # of Business Entities	<p>No limit on the number for Schedule C.</p> <p>A transaction may have up to 2 1065 and/or 1120 entities between all the borrowers.</p> <p>REO held inside an entity is generally not considered an entity for this purpose provided the entity's sole activity is to hold real estate.</p> <p>An entity with a percentage of ownership that does not require business returns is not considered in this calculation for max number of entities.</p> <p>Transactions that exceed the number of entities may be approved case by case via exception.</p>
Business Bank Statement (BBS)	<p>Intended for borrowers with 50% or more self-employment income</p> <p>May be combined with non-business income: i.e. SSI, rental income, W2 wages</p> <p>Multiple bank accounts are allowed</p> <p>A minimum of 25% ownership in the business is required</p>
Co-Mingled Bank Statement (Personal account used for business)	<p>Intended for borrowers with 50% or more self-employment income</p> <p>May be combined with non-business income: i.e. SSI, rental income, W2 wages</p> <p>Multiple bank accounts are allowed</p> <p>Borrower must be 100% owner of the business (borrower plus spouse with 100% ownership is allowed)</p>
1099 In Lieu of Bank Statements Option	<p>1099s may be obtained and used to replace 1 or 2 calendar years of business or personal bank statements.</p> <p>Some business owners will have one or more main customers with a 1099 relationship in place, those 1099(s) can be used to determine the gross receipts of the business in lieu of providing bank statements for the time period covered by the 1099.</p> <ul style="list-style-type: none"> - Provide 1 or 2 years of 1099s - Evidence of year-to-date earnings must be verified via bank statements covering the YTD period
Business Narrative	<p>A business narrative is required to be completed by the borrower, or loan officer, when using business bank statement or co-mingled bank statement income. The business narrative must be in the file prior to submission.</p>
Consistency of Deposits for Bank Statement Income	<p>Deposits will be reviewed and evaluated for consistency in size, number, and type. Inconsistent, or out of trend deposit activity, may require further documentation or be excluded.</p>
Evaluation of Large Deposits for Bank Statement Income	<ul style="list-style-type: none"> - Any deposit exceeding 50% of the average monthly sales of the business is considered a large deposit - Isolated large deposits are deposits that occur very infrequently. These deposits need to be sourced and confirmed as business income or they should be excluded - Six, or more, large deposits in a 12-month period can be considered as consistent and do not necessarily need to be sourced or excluded

<p>Non-Sufficient Funds (NSF) and Overdraft Protection on Bank Statement Loans</p>	<p>Acceptable NSF/overdraft tolerances: The most recent 12 months are reviewed.</p> <ul style="list-style-type: none"> - 1 / 3 / 3: If there are 1 or more occurrences in the most recent 3 months, then 3 occurrences are allowed - 0 / 3 / 5: If there are 0 occurrences in the most recent 3 months, then 5 occurrences are allowed - Exceptions may be considered and must include (a) a letter of explanation from the borrower outlining the reasons for the occurrences and explanation how and when the issue leading to the occurrences was resolved, AND (b) additional compensating factors supporting the viability of income <p><u>Note: multiple NSFs/overdrafts happening on the same day are counted as 1 occurrence</u></p>
<p>Methods for Calculating Bank Statement Income</p>	<p>Method 1: Fixed Expense Ratio 50% A 50% fixed expense ratio is applied to total allowed deposits to determine the net business income</p> <p>Method 2: Third Party Expense Statement A CPA, accountant or tax preparer signed and dated statement indicating the percentage of expenses to gross annual sales/revenue</p> <ul style="list-style-type: none"> - Must cover the 12 or 24 month period of the bank statements - The individual providing the statement, or the individual's firm, must have prepared the borrower's most recent tax returns - Verification evidencing the CPA, accountant or tax preparer's business and a current license are required <p>Method 3: Third Part Prepared P&L A CPA, accountant or tax preparer signed and dated P&L</p> <ul style="list-style-type: none"> - Must cover the 12 or 24 months period of the bank statements - Verification evidencing the CPA, accountant or tax preparer's business and a current license are required - Gross receipts on P&L must be within a 10% variance of allowable deposits <p>Method 4: Deposits Minus Withdrawals</p> <ul style="list-style-type: none"> - Take total qualifying deposits and subtract total withdrawals - Add back payments to partners/owners - Add back obvious major non-business expenses, like primary residence housing payments, income tax payments, etc. - Divide net income by borrower's percentage of ownership - Divide net income by number of months of BBS used, 12 or 24

<p>Personal Bank Statement (PBS)</p>	<p>Intended for borrowers with 50% or more self-employment income</p> <p>May be combined with non-business income: i.e. SSI, rental income, W2 wages Multiple bank accounts are allowed</p> <p>A minimum of 20% ownership in the business is required</p> <p>Third party documentation of self-employment is required to support that the business has been in operation for the previous two (2) calendar years and that the borrower(s) had ownership for same period</p> <p>May use 100% of qualified deposits in the personal account when there is evidence of a separate business account to show transfers and activity to support business operations</p>
<p>1099 Program (Alt Doc)</p>	<p>Designed for borrowers who are contractors with minimal expenses and receive 1 or more 1099s / year</p> <p>Can be combined with all other income sources</p> <p>There are 2 options to support and document income:</p> <ul style="list-style-type: none"> - Option #1: Use a 10% expense ratio OR - Option #2: Provide a third party (tax professional) prepared Business Expense Statement OR P&L to a minimum 5% expense factor <p>Qualifying income is based on the 12 or 24 months average from total of all 1099's minus the expense factor YTD earnings must show that the income is ongoing with the following:</p> <ul style="list-style-type: none"> - Paystub that reflects YTD earnings OR - Bank Statements, YTD or 4 months (whichever is less) <p>The YTD earnings from the paystub or the total of deposits on the bank statements must be within 15% of the qualifying income.</p> <ul style="list-style-type: none"> - Some work may have a seasonal aspect and recent activity will not support the yearly average. Documentation must be provided to support seasonality. - Some commission work may have irregular payouts. Proof of pending commissions may be acceptable to support continued income level.
<p>Rental Income Along with Bank Statement and Alt Doc Income</p>	<ul style="list-style-type: none"> - Use 80% of a long-term lease - Document receipt of rents - Deduct rental deposits if rents are deposited into the same account being used to develop the primary business income

<p>Bank Statement Rental Income (Primary Income Source)</p>	<p>Net <u>long-term rental income</u> is calculated by taking 90% of the lesser of combined lease amounts or average net deposits, minus the PITI. Net <u>short-term rental income</u> is calculated by taking 80% of the lesser of combined lease amounts or average net deposits, minus the PITI.</p> <p>The borrower is given credit for rental income commensurate with the borrower's ownership percentage in the property.</p> <p>The following documentation is required:</p> <ul style="list-style-type: none"> - A copy of the lease(s) or host report for the rental property - 12 months bank statements verifying receipt of rents - Property profiles, or similar, that document the borrower's ownership position in each REO used to generate qualifying income - Entity formation docs for properties held in an entity 	
<p>History of Self-Employment (Full Doc and Alt Doc)</p>	<p>A 2 year history of self-employed history required on all loans Less than 2 years but greater than 1 year can be considered case-by-case. Requirements are:</p> <ul style="list-style-type: none"> - Strong previous experience - Job industry-specific training - Previous work history to support lack of self-employment history 	
<p>Tax Transcripts on Full Doc</p>	<ul style="list-style-type: none"> - Required on all income used to qualify - Transcripts can match income type - Business transcripts not required if business income is reported on 1040 - Signed 1040's are not required - 3rd party WVOE can be used in lieu of W2 transcripts - Transcripts not required for subject investment property rental income 	
<p>Tax Transcripts on Bank Statement, and 1099</p>	<p>Transcripts and income validation not required for Bank Statement or 1099 1 & 2 year programs. Transcripts are required for any non-1040 type full doc income used in conjunction with these 2 income types - i.e. W2 wages (see section on transcripts for alternatives)</p>	
<p>Earning Trends</p>	<p>Year to year earnings must be considered in accordance with Appendix Q Part 1026 of regulation Z - Standards for determining Monthly Debt and Income</p>	
	<p>Stable or Increasing</p>	<p>Amounts should be averaged</p>
	<p>Declining but Stable</p>	<p>If 24 month average shows a decline, but most recent 12 months has stabilized & there is no reason to believe that the income / employment will not change the most recent 12 month average may be used.</p>
	<p>Declining</p>	<p>Income is ineligible</p>

<p>Short Term Rental Income</p>	<p>Qualifying Income can be used for property that is rented on a short-term basis through services like Airbnb and VRBO. The income is underwritten in the same manner as long-term rentals, as the rental activity will typically show up on Schedule-E. Host reports showing the monthly income are used to show current rental activity. Bear in mind that many STR properties will have a seasonal component. For STR properties obtained after the borrower's most recent filed tax return, income can be derived from a third party STR facilitator's host report. Companies like Airbnb and VRBO provide summary reports which show the net payout to the owner for each property. Depending on the length of time the property has been in service, an AirDNA report can be pulled to help determine the usable rental income. The AirDNA will show any seasonal aspect of the property's cash flow. The Newfi UW will obtain the AirDNA report if needed. The AirDNA report is used to support the property's actual income, it is not used to determine future possible income. When using an STR host report for income, 80% of the payout to the owner will be used. The PITI is applied to determine the properties net income or net loss.</p>
<p>Departure Property 3 Options</p>	<p>Option 1: If the current residence is pending sale but the transaction will not close prior to the subject transaction, the current PITI may be excluded with the following:</p> <ol style="list-style-type: none"> 1. The executed sales contract for the current residence AND 2. Confirmation that all financing contingencies have been cleared. <p>Option 2: If the current residence will become a rental property, the net rental income may be used to offset carrying costs or to add to qualifying income. The following 3 items are required</p> <ol style="list-style-type: none"> 1. Copy of current lease AND 2. Proof of receipt of deposit and 1st month's rent AND 3. Evidence rent is near market, either a 1007 or other underwriter/loan officer obtained confirmation of market rent is required. 4. Use lease and apply the 75% rule to determine cash flow. <p>Option 3: If the departure prop is unleased, then the PITI can be offset with market rents Positive cash flow from departing residence without a lease in place may not be added to income. Use 1007 or other acceptable third party report and apply the 75% rule to determine cash flow.</p>

Accessory Dwelling Unit (ADU) Rents	<p>Accessory Dwelling Unit (ADU) Rents</p> <p>ADUs are becoming increasingly popular in many locations across the US as housing gets more scarce and more expensive. Using rents from an ADU are acceptable with the following requirements:</p> <ul style="list-style-type: none"> - Appraisal shows the ADU to be legal or zoning compliant - Appraiser to provide comparables with ADUs - Multi-family or multi-ADU acceptable provided total unit count is less than or equal to four <p>Refinance</p> <ul style="list-style-type: none"> - Appraiser to address ADU rents on a 1007 <p>Purchase</p> <ul style="list-style-type: none"> - Follow guidance above Rental Income Calculation section, however STR not allowed
PROPERTY & APPRAISAL	
Acreage	No more than 20 acres
Property Zoning	<p>Zoning designations are determined by the City or County based on the property location, each governing entity has their own unique zoning titles or descriptions. The property's specific zoning will describe, in general, what type of activity is allowed, and the density that is allowed. Regardless of what the zoning designation is for the subject property, the property must meet the 3 requirements listed below.</p> <ul style="list-style-type: none"> - The current usage of the subject property is residential - Residential must be an allowed usage of the subject property zoning - Residential must be the highest and best use of the subject property, as defined by the appraiser <p>As long as the property passes the 3 question test listed above, the zoning designation is acceptable.</p>
Non-Residential Improvements	<p>Any non-residential improvements, like shops, storage structures, barns or animal shelters must meet the criteria listed below:</p> <ul style="list-style-type: none"> - Must be minor in scope - Common for the area - They must have no impact on the property being residential in nature - They must be given only nominal contributory value by the appraiser and not impact marketability
Horse Improvements	<p>Must be minor in nature and consistent with owner usage only. In general, a 1 to 4 horse stable is acceptable. Small fenced off riding areas are usually acceptable. Any improvements that indicate usage for more than the owner, like grandstands, parking areas, guest quarters or excessive vehicles, will make the property ineligible. The horse improvements must meet the following test:</p> <ul style="list-style-type: none"> - Must be minor in scope - Common for the area - They must have no impact on the property being residential in nature <p>They must be given only nominal contributory value by the appraiser and not impact marketability</p>

Rural Properties	<p>Allowed</p> <p>Max LTV/CLTV 70%</p> <p>Considered Rural when 2 of the 3 listed below are present OR the appraiser has designated the property as rural:</p> <ul style="list-style-type: none"> - Non paved service road - 3 comps are > 5 miles away from the subject property - Subject surrounding area is less than 25% built up
Property Flips	<p>A property is considered a flip if either of the following are true:</p> <ul style="list-style-type: none"> - The purchase price exceeds the seller's acquisition cost by more than 10% if the property was acquired 90 or fewer days prior to the borrower's purchase contract date - The purchase price exceeds the seller's acquisition cost by more than 20% if the property was acquired 91 – 180 days prior to the borrower's purchase contract date <p>If the property is a flip based on the guidance above, a second appraisal is required</p>
Recently Listed Properties	<p>Non-Owner Occupied</p> <ul style="list-style-type: none"> - Rate & Term: Any active listing must be cancelled prior to going to closing - Cash Out: Properties listed for sale in the past 6 months are not allowed* <p>Owner Occupied and 2nd Home</p> <ul style="list-style-type: none"> - Rate & Term: Properties listed at the time of application are eligible provided listing is cancelled prior to going to closing - Cash Out: Properties listed for sale in the past 6 months are not allowed* <p><u>*note: 6 months is counted from listing cancellation date to note date</u></p>
Warrantable Condos (Established Projects Only)	<ul style="list-style-type: none"> - Established projects ONLY - Detached units and small projects (2-4 condos) follow FNMA guidance (No HOA review required) HOA Review Type: follow FNMA requirements
Ineligible Properties	<p>New condo projects</p> <p>Non-warrantable condos</p> <p>Condotels & resort style condos</p> <p>Unique style homes: earth, dome, etc.</p> <p>Property condition of C5 or C6</p> <p>Working farms or ranches</p> <p>Group Homes, for example, assisted living and drug/alcohol rehab facilities</p> <p>Leaseholds</p>

Property Insurance	<p>We follow standard industry insurance requirements, with the following overlays allowed</p> <p>1-4 Unit Coverage Overlays</p> <ul style="list-style-type: none"> - Allow for greater than 5% deductible. Maximum of 10% - Allow for less than full replacement cost on roof coverage. One example is policies that provide for full replacement cost thru year 15, but thereafter revert to actual cash value <p>HOI Overlay Requirements:</p> <ul style="list-style-type: none"> - The transaction reserve floor is the lesser of \$30k or 12 months PITI <p>Condo Master Coverage Overlays</p> <ul style="list-style-type: none"> - Allow for greater than 5% deductible. Maximum of 10% - Allow for less than full replacement cost on roof coverage. One example is policies that provide for full replacement cost thru year 15, but thereafter revert to actual cash value <p>Condo Master Overlay Requirements:</p> <ul style="list-style-type: none"> - Regardless of transaction requirements, an HOA budget must be provided for review. Budget must contain required reserve holdback* <p>*For condos treated like an SFR (small projects or detached), please see requirements for 1 - 4 Unit Coverage</p>
Appraisal Requirements	<p>A second appraisal is required when any of the following exist:</p> <ul style="list-style-type: none"> - The loan amount is greater than \$2,000,000 - The transaction is a flip (see Property Flipping section) <p>When a second appraisal is required, the value is based on the lower of the 2 values. The second appraisal must be from a different company and appraiser than the first appraisal.</p>
Appraisal Review	<p>An appraisal review product is required on every loan unless a second appraisal is obtained, one of the three options below is acceptable:</p> <ul style="list-style-type: none"> - CDA from Clear Capital OR - ValREVIEW from Valligent OR - Collateral Underwriter (CU Score) less than 2.5 OR - A field review or a second appraisal is also acceptable – These must be from a different company and appraiser than the first appraisal <p>If the CDA/ValREVIEW reflects a value of 10% or less below the appraised value, the appraised value is accepted</p> <p>If the CDA/ValREVIEW reflects a value of more than 10% below the appraised value, a field review or a second appraisal is required</p>

Appraisal Age	<ul style="list-style-type: none"> - Appraisal must be dated within 120 days of the note date - Re-certs of value are allowed and valid for 120 days, original report age cannot exceed 12 months - Properties with Condition Ratings of C4 or better required
Transferred Appraisals	Allowed
Declining Property Value	If the trend of property values is downward, a declining market exists and a 5% LTV reduction from the LTV product matrices for LTVs greater than 70%
TEXAS REFINANCES	
Texas 50(a)(6)	<p>A Texas 50(a)(6) mortgage is a loan originated under the provisions of Article XVI, Section 50(a)(6), of the Texas Constitution, which allows a borrower to take equity out of a homestead property under certain circumstances. Any cash back is considered cash-out. Primary residence allowed only. All borrowers must be on title and occupy.</p> <ul style="list-style-type: none"> - Max LTV / CLTV is 80% - No interest-only - No prepayment penalties - Only 1 Unit properties are allowed: SFR (attached or detached), PUD (attached or detached), Condominium - New subordinate financing is not permitted, HELOC subordinate financing is not permitted (existing HELOC must be closed), an existing Texas 50(a)(6) second mortgage may not be re-subordinated to a new Texas 50(a)(6). Must be paid off at closing - At least one new full appraisal is required - No Foreign Nationals - 1-year seasoning of prior Texas 50(a)(6) loan required - Loan cannot close until 12 calendar days after the "Notice Concerning Extensions of Credit" is signed - Borrower-paid fees cannot exceed 2% of loan amount
Texas 50(f)(2)	<p>A Texas Section 50(f)(2) mortgage is a rate and term refinance of an existing Texas 50(a)(6).</p> <ul style="list-style-type: none"> - Max LTV / CLTV is 80% - ZERO cash back allowed. Proceeds to pay off only existing Texas 50(a)(6) lien, other permitted liens on homestead (property taxes, owelty lien, mechanic's lien), actual costs and reserves required by lender to refinance - 1-year seasoning of prior Texas 50(a)(6) loan required - Loan cannot close until 12 calendar days after the "Notice Concerning Refinance of Existing Home Equity Loan to Non-Home Equity Loan" is signed