



## **D - Alt-A, Non-Prime, and DSCR Guidelines**

# NON-QUALIFIED MORTGAGE

The Non-QM programs offer loans with features beyond the criteria established for Qualified Mortgages. Features include alternative income documentation for self-employed borrowers, interest only, and loan qualification for investment properties using the subject property cash flow. Non-QM loans submitted to Solve must meet the criteria of the current published Eligibility Guide as of the file submission date for review.

## SECTION 4 - PRODUCT MATRICIES (08/29/2022)

(See attached Loan Matrices Document)

### ELIGIBLE PRODUCTS (08/29/2022)

The following loan products are eligible for purchase by Solve:

PRODUCT	QUALIFYING RATE*	TER M	I/O TER M	AMO RT TER M	INDEX	CAP S
5/6 ARM	Higher of Fully indexed or Note Rate	360	NA	360	30-day avg SOFR	2/1/5
5/6 ARM I/O	Higher of Fully indexed or Note Rate	360	120	240	30-day avg SOFR	2/1/5
5/6 ARM I/O	Higher of Fully indexed or Note Rate	480	120	360	30-day avg SOFR	2/1/5
7/6 ARM	Higher of Fully indexed or Note Rate	360	NA	360	30-day avg SOFR	5/1/5
7/6 ARM I/O	Higher of Fully indexed or Note Rate	360	120	240	30-day avg SOFR	5/1/5
7/6 ARM I/O	Higher of Fully indexed or Note Rate	480	120	360	30-day avg SOFR	5/1/5
10/6 ARM	Higher of Fully indexed or Note Rate	360	NA	360	30-day avg SOFR	5/1/5
10/6 ARM I/O	Higher of Fully indexed or Note Rate	360	120	240	30-day avg SOFR	5/1/5
10/6 ARM I/O	Higher of Fully indexed or Note Rate	480	120	360	30-day avg SOFR	5/1/5
15 YR FIXED	Note Rate	180	NA	180	NA	NA
30 YR FIXED	Note Rate	360	NA	360	NA	NA
30 YR FIXED I/O	Note Rate	360	120	240	NA	NA

<b>40 YR FIXED</b>	Note Rate	480	NA	480	NA	NA
<b>40 YR FIXED I/O</b>	Note Rate	480	120	360	NA	NA

\*When Investor Solutions – DSCR documentation type is selected, all ARM products may use the note rate for qualifying.

<b>Additional ARM Criteria</b>			
<b>Adjustment Reset Period</b>	<b>Lookback Period</b>	<b>Margin</b>	<b>Floor</b>
6-months	45-days	See Rate Sheet	Margin

#### 4.1.1 - QUALIFYING PAYMENT (09/07/2021)

The qualifying payment is based upon the principal and interest payment along with 1/12<sup>th</sup> of the annual real estate taxes, property insurance, any other insurance, and any association dues.

Non-Qualified Mortgage

The qualifying payment is based on the amortization term. For interest-only loans, using standard or Alt documentation, this is the remaining term after expiration of the interest-only period. Single asset DSCR loans secured by 1-4 unit properties can be qualified using the interest only payment (ITIA).

#### 4.1.2 - INTEREST-ONLY RESTRICTIONS (08/29/2022)

<b>Alt-A</b>	<b>Non-Prime</b>	<b>DSCR</b>
<b>All Occupancy</b>	<b>All Occupancy</b>	<b>Investment</b>
Minimum Credit Score: 660	Minimum Credit Score: 660	Minimum Credit Score: 660
Maximum LTV/CLTV 90%	Maximum LTV/CLTV: 85%	Maximum LTV/CLTV: 75%

#### 4.1.3 - LOAN AMOUNTS (04/25/2022)

<b>Alt-A</b>	<b>Non-Prime</b>	<b>DSCR</b>
Minimum: \$150,000	Minimum: \$150,000	Minimum: \$100,000
Maximum: \$4,000,000	Maximum: \$3,000,000	Maximum: \$3,500,000

#### 4.1.4 - MINIMUM CREDIT SCORE (08/29/2022)

<b>Alt-A</b>	<b>Non-Prime</b>	<b>DSCR</b>
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660	600	620
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#### 4.1.5 - SOLAR PANEL REQUIREMENTS (08/29/2022)

##### Properties with Solar Panels

The ownership and debt financing structures commonly found with solar panels are key to determining whether the panels are third-party owned, personal property of the homeowner, or a fixture to the real estate. Common ownership or financing structures include:

- Borrower-owned panels,
- Leasing agreements,
- Separately financed solar panels (where the panels serve as collateral for debt distinct from any existing mortgage); or
- Power purchase agreements

Properties with solar panels and other energy efficient items financed with a PACE loan are not eligible for delivery if the PACE loan is not paid in full prior to or at closing.

Lenders are responsible for determining the ownership and any financing structure of the subject property's solar panels in order to properly underwrite the loan and maintain first lien position of the mortgage. When financing is involved, lenders may be able to make this determination by evaluating the borrower's credit report for solar-related debt and by asking the borrower for a copy of all related documentation for the loan.

The lender must also review the title report to determine if the related debt is reflected in the land records associated with the subject property. If insufficient documentation is available and the ownership status of the panels is unclear, no value for the panels may be attributed to the property value on the appraisal unless the lender obtains a UCC "personal property" search that confirms the solar panels are not claimed as collateral by any non-mortgage lender.

**Note:** A Uniform Commercial Code (UCC) financing statement that covers personal property and is not intended as a "fixture filing" must be filed in the office identified in the relevant state's adopted version of the UCC.

The following sections summarize some of the specific underwriting criteria that must be applied depending on the details of any non-mortgage financing for the solar panels.

##### Scenario 1 – Solar Panel(s) Affixed to Real Estate

If the solar panels are financed and collateralized – the solar panels are collateral for the separate debt used to purchase the panels, but they are a fixture to the real estate because a UCC fixture filing has been filed for the panels in the real estate records.

The lender must:

- Obtain and review the credit report, title report, appraisal, and/or UCC fixture filing, related promissory note and related security agreement that reflects the terms of the secured loan;
- Include the debt obligation in the DTI ratio calculation;
- **Not** include payment in the DTI if the payment under power purchase agreement is calculated solely based on the energy produced.
- Provided that the panels cannot be repossessed for default on the financing terms, instruct the appraiser to consider the solar panels in the value of the property (based on standard appraisal requirements); and
- Include the solar panels in other debt secured by the real estate in the CLTV ratio calculation because a UCC fixture filing is of record in the land records.

Note: If a UCC fixture filing is in the land records as a priority senior to the mortgage loan, it must be subordinated. **Scenario 2 – Solar Panel(s) Not Affixed to Real Estate**

Financed and collateralized – the solar panels are reported to be collateral for separate (non-mortgage) debt used to purchase the panels, but do not appear on the title report.

The lender must:

- Obtain and review documentation sufficient to confirm the terms of the secured loan (such as copies of the credit report, title report, and any UCC financing statement, related promissory note or related security agreement);
- Include the debt obligation in the DTI ratio calculation;
- **Not** include payment in the DTI if the payment under power purchase agreement is calculated solely based on the energy produced.
- Instruct the appraiser not to provide contributory value of the solar panels towards the appraised value because the panels are collateral for another debt;
- Not include the panels in the LTV ratio calculation; and
- Not include the debt in the other debt secured by the real estate in the CLTV ratio calculation since the security agreement of any UCC financing statement treat the panels as personal property not affixed to the home.

#### 4.1.6 - PRIVATE MORTGAGE INSURANCE (PMI)

Private Mortgage Insurance (PMI) is not required on any loan eligible for sale to Solve

#### Mortgage. 4.1.7 - LOAN DOCUMENTATION

##### 4.1.7.1 - NOTE AND SECURITY INSTRUMENT FORMS (12/13/2021)

For consumer loan transactions, the current version of the Uniform Residential Loan Application (URLA) should be used. For business purpose loan transactions, the lender may utilize the URLA or similar lender application.

Available Fannie Mae® security instruments, notes, riders/addenda, and special purpose documents can be used for owner-occupied or investment property loan documentation. The Fannie Mae® forms are available at <https://singlefamily.fanniemae.com/selling-and-servicing-guide-forms-and-communications>. In instances when Fannie

Mae® doesn't offer current documentation (e.g., interest only), a document vendor, such as Doc Magic or Ellie Mae should be used to obtain forms.

For business purpose loans (Investment Property Only), Solve offers a business purpose document set consisting of: Note, Loan Agreement, Personal Guaranty, and Prepayment Rider. The use of this business purpose document set or a similar commercial style closing documents is required for cross-collateral loans.

##### 4.1.7.2 - HYBRID CLOSING (04/25/2022)

Solve will purchase loans using a Hybrid closing method. The definition of Hybrid Closing is as follows:

- E-signed documents may be delivered for all documents in the file with the following exceptions:
  - Original wet signed note and associated endorsement/allonge
  - The copy of the mortgage/deed of trust can be digitally signed **provided that the jurisdiction allows for the digital closing and recording**. The digital portion of the closing includes the use of a remote notary service.
- The system used for the remote online notarization must meet the following minimum standards:
  - At least two-factor identity authentication, using a combination of

at least two of the following factors: • Remote presentation of a government-issued photo ID that has a signature

- Credential analysis
- Identity-proofing (i.e., knowledge-based authentication)

If the hybrid closing is used, the collateral submission at the time of post-close submission must include the proof of digital signatures.

Solve cannot purchase loans closed with an Enote and Evault, also known as a full E-Closing.

## **AGE OF DOCUMENT REQUIREMENTS (06/21/2021)**

### **4.2.1 - CREDIT REVIEW DOCUMENTATION**

The following documents may not be more than 90 days old at closing (the date the Note is signed):

- Income verification / pay stubs
- Mortgage /rental verification
- Asset documents / bank statements
- Credit Report

The following documents may not be more than 120 days old at closing (the date the Note is signed): • Title commitment / preliminary report / binder

Any credit review documents exceeding these timeframes must be updated.

### **4.2.2 - APPRAISAL (08/29/2022)**

**Residential Appraisals (1-4 units):** The appraisal must be dated within 365 days of the Note date. Recertification of value required if the report would exceed 120 days of the Note Date. See complete appraisal requirements in Section 5.5.1.1 – Appraisal Requirements.

**Commercial Appraisals (5-8 multi-family, 2-8 mixed use):** Appraisals dated fewer than 120 days prior to the note date are acceptable. After 120 days, a new appraisal is required.

### **4.2.3 - CLARIFICATION**

It may be necessary for the applicant to explain or clarify information provided on the application or for a third-party to clarify information provided on a verification request form. This should be completed in writing and included in the underwriting file.

### **4.2.4 - LOAN SEASONING**

Loans seasoned beyond the second scheduled payment date due from the borrower are ineligible. Solve may, at its sole discretion, make exceptions regarding loan seasoning.

## **BORROWER ELIGIBILITY (06/21/2021)**

### **4.3.1 - RESIDENCY**

#### **4.3.1.1 - US CITIZEN**

Eligible without guideline restrictions.

#### **4.3.1.2 - PERMANENT RESIDENT ALIEN**

An alien admitted to the United States as a lawful permanent resident. Lawful permanent residents are legally accorded the privilege of residing permanently in the United States.

- Acceptable evidence of permanent residency include the following:
  - Alien Registration Receipt Card I-551 (referred to as a green card).
  - Alien Registration Receipt Card I-551 (Resident Alien Card) that does not have an expiration date on the back (also known as a green card).
  - Alien Registration Receipt Card I-551 (Conditional Resident Alien Card) that has an expiration date on the back, and is accompanied by a copy of the filed INS Form I-751 (petition to remove conditions).
  - Non-expired foreign passport that contains a non-expired stamp (valid for a minimum of three years) reading "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until [mm-dd-yy]. Employment Authorized."
- Eligible without guideline restrictions.

#### **4.3.1.3 - NON-PERMANENT RESIDENT ALIEN (08/29/2022)**

An individual admitted to the United States as a lawful temporary resident. Lawful non-permanent residents are legally accorded the privilege of residing temporarily in the United States.

- Legal Status Documentation
  - Visa types allowed: E-1, E-2, E-3, EB-5, G-1 through G-5, H-1B, L-1, NATO, O-1, R-1, TN NAFTA.
  - Visa must be current. If the visa will expire within six (6) months following the close date, additional documentation is required: evidence that the proper extension steps have been followed per the U.S. Citizenship and Immigration Services (USCIS) website, along with proof of payment receipt and proof that the extension was done in the timeframe required by USCIS.
  - When applicable, a valid Employment Authorization Document (EAD) is required for US employment if borrower is not sponsored by a current employer. If the EAD will expire within six (6) months of loan application, it is acceptable to obtain a letter from the employer documenting the borrower's continued employment and continued EAD renewal. The employer on the loan application must be the same as on the unexpired EAD. The EAD documentation is acceptable up to 540 days if an automatic extension has been granted. If the borrower filed a Form I-765 renewal application on or after May 4, 2022, USCIS will send them a Form I-797C Notice of Action receipt notice that has information regarding the up to 540-day automatic extension. If the borrower is eligible for the automatic extension, this receipt notice, together with the expired EAD (and the borrower's unexpired Form I-94, if the borrower is an H-4, E, or L-2 dependent spouse, including E-1S, E-2S, E-3S and L-2S class of admission codes) will serve as acceptable proof of employment authorization and/or EAD validity during the up to 540-day automatic extension period. See the related USCIS link for further information:  
<https://www.uscis.gov/eadautoextend>
- Guideline restrictions:

- Standard or Alt Documentation limited to 24 months only. Maximum LTV/CLTV limited to 80% ○ DSCR Documentation (Investment Only): Maximum LTV/CLTV 70%
- Non-occupant co-borrowers are not allowed.
- Gift funds are not allowed.
- US credit requirements detailed under the Credit section of this guide should

#### be used. 4.3.1.4 - FOREIGN NATIONAL (04/25/2022)

A Foreign National is: a non-resident alien who is not authorized to live or work in the U.S. A Foreign National may periodically visit the U.S. for various reasons including vacation and/or business. To be eligible, the borrower must live and work in another country and be a legal resident of that same country. They may not purchase property intended for use as a primary residence.

Foreign Nationals are not eligible under the Alt-A or Non-Prime matrix.

Foreign Nationals are eligible under the following matrices:

- Foreign National (second home or investment properties)
- DSCR 5-8 unit or 2-8 unit mixed-use properties
- DSCR Cross Collateral

Citizens of the following countries are not eligible under the Foreign National product or any other product:

- Russia
- Belarus

## FOREIGN RESIDENCY

A foreign national borrower must evidence their primary residence for the country issuing their Passport. Foreign National borrowers may not occupy the subject property as a primary residence.

- A complete loan application (Form 1003) is required on all loan files reflecting the borrowers address for their primary residence in their country of origin.
- The application must include the borrower's full legal name, phone number, address including flat, floor, unit or house number, street name, city, province/state along with a postal code.
- Borrower to provide a third-party document with an address that matches the primary residence on the application e.g., lease agreement, utility bill, financial statement.
- The Borrower Contact Consent Form is required.

## AUTOMATIC PAYMENT AUTHORIZATION (ACH) (06/21/2021)

Automatic Payment Authorization (ACH) Form is required for all foreign national borrowers. Funds must be from a U.S. Bank. The executed (ACH) enrollment form must be included in the closed loan submission package. The (ACH) enrollment form must include the bank routing number, account number, and account type. Borrowers may select a date within the grace period stated on the Note.

## FOREIGN NATIONAL PROGRAM SPECIFIC DOCUMENTATION REQUIREMENTS (08/29/2022)

- The following are required as evidence the borrower is in the U.S legally:
  - Copy of the borrowers valid and unexpired passport (including photograph) and
    - Copy of the borrower's valid and unexpired visa (including photograph) OR an I-797 form with valid extension dates and I-94, or
    - Borrowers from countries participating in the State Department's Visa Waiver Program



(VWP) are not required to provide a valid visa. Participating countries can be found at <https://travel.state.gov/content/travel/en/us-visas/tourism-visit/visa-waiver-program.html>. The credit file should be documented with a current print-out of the participating countries, with the borrowers country of origin highlighted.

- Citizens of Canada traveling to the United States do not require a nonimmigrant visa. • A list of nonimmigrant Visa types is located on the U.S. Department of State web site <https://travel.state.gov/content/travel/en/us-visas/visa-information-resources/all-visa-categories.html> • If a non-U.S. citizen is borrowing with a U.S. citizen, foreign national documentation requirements still apply. • All parties (borrowers and property sellers) involved on the transaction must be screened through exclusionary lists, and must be cleared through OFAC's SDN list. A search of Specially Designated Nationals & Blocked Persons list may be completed via the US Department of Treasury: <http://sdnsearch.ofac.treas.gov/>.
- Borrowers from OFAC sanctioned countries are ineligible <http://www.treasury.gov/resourcecenter/sanctions/Programs/Pages/Programs.aspx>.
- Individuals with Diplomatic immunity are not eligible, immunity status is listed on the reverse side of the U.S. issued ID card or at: <https://2009-2017.state.gov/s/cpr/rls/dpl/index.htm>
- Documents signed by Borrowers outside of the United States must be notarized by a U.S. embassy or consular official. The certificate of acknowledgment must meet the standard notarial requirements and must include the embassy or consular seal. If the U.S. embassy or consular official is unavailable, a notary is acceptable if the country, where signing is taking place, is part of the Hague Convention and the signed documents are accompanied by an Apostille. See the following link to determine if the country is part of the Hague Convention:

<https://travel.state.gov/content/travel/en/records-and-authentications/authenticate-your-document/apostille-requirements.html>

Model Apostille forms can be found on the following link:

<https://www.hcch.net/en/instruments/specialised-sections/apostille>

- Power of Attorney (POA) is not allowed.

## QUALIFYING U.S. CREDIT

- For foreign national borrowers with a valid Social Security number, a credit report should be obtained. Requirements found in the Credit section of this guide apply.
- Restrictions when qualifying with U.S. credit:
  - Minimum Credit Score: 680
  - Non-Occupant Co-Borrowers not allowed
  - Second Home or investment property only

## QUALIFYING FOREIGN CREDIT (08/29/2022)

- Foreign national borrowers without qualifying U.S. credit (Including borrowers without a valid Social Security number and borrowers with or without an Individual Tax Identification Number) must provide evidence of two (2) open tradelines reporting for two (2) years with activity in the most recent 12 months. No derogatory credit history is permitted within the 2-year history under review. ANY combination of the following is acceptable to arrive at the tradeline requirement:
  - Tradelines evidenced via a U.S. credit report; AND/OR
  - Alternative Tradelines consisting of two of the following:
    - Credit Reference letter(s) from a verified financial institutions in the borrower's country of origin
    - A reference letter must be from an internationally known financial

institution.

- Each letter of reference must state the type and length of the relationship, how the account is held, payment amount, outstanding balance and status of account including a minimum 12-month payment history.
- A single reference source may provide verification of multiple accounts. Individual account detail must be provided.
- The letter must mention the borrower by name.
- Name, title & contact information of the person signing the letter must be included.
  - Currency must be converted to U.S. Dollars and signed and dated by certified translator.
  - All documents must be translated into English.
- Credit Card Statements – minimum of twelve (12) recent credit card statements reflecting a timely payment history.
- Guideline restrictions: Qualifying Foreign Credit
  - Maximum LTV/CLTV: 75%
  - Standard Doc (Second Home or Investment)
  - DSCR (Investment property only)
  - Non-Occupant Co-Borrowers not allowed

## HOUSING HISTORY (08/29/2022)

A housing history for the borrower's primary residence is not required. Refinance transactions (including cash out) require the most recent 12-month housing history for the subject property.

## FOREIGN NATIONAL INCOME (08/29/2022)

- Borrowers with US sourced income must comply with all Standard Documentation guidelines. • Foreign National Salaried/Wage Earners qualifying on Non-US income sources can be documented using the following method:
  - A letter from employer on company letter head providing current monthly salary, YTD earnings and total earnings for the past 2-years. Letter from employer must be on company letterhead, including address and company web address, Employer to be independently verified (LexisNexis, D&B, Google, other). All docs must be translated by an independent certified translator.
- Foreign National Self-Employed borrowers qualifying using non-US income sources:
  - Must be self-employed for a minimum of 2 years evidenced by a letter from the borrower's CPA or local equivalent (the "Accountant") on Accountant letterhead. The letter must include income figures for each of the last 2 years and YTD income. A business license (where required) and organization documents should be provided; and
  - A copy of the Accountant's current license is required. The Business & Accountant must be independently verified; and
  - All documents must be translated by an independent certified translator.
- Asset Utilization is eligible for Foreign National borrowers. Assets must be seasoned a minimum of three (3) months in a U.S. financial institution. See 5.3.11 Alt Doc - Asset Utilization for complete requirements. • Income from countries sanctioned by OFAC is not allowed.
- Care must be taken in assessing income from non-US sources. If income is declining or inconsistent, and cannot be isolated to a non-recurring instance, then the lowest annual income should be used.

## FOREIGN NATIONAL ASSETS

## RESERVES

Twelve (12) months of reserves are required. Reserves may be reduced to six (6) months with a 5%

#### LTV reduction. ASSETS HELD IN FOREIGN ACCOUNTS (04/25/2022)

Assets held in foreign accounts may be used as a source of funds to close and to meet applicable reserve requirements. These funds must be transferred to a U.S. domiciled account in the borrower's name at least ten (10) days prior to closing.

- Documenting Assets Held in Foreign Accounts:
  - Assets must be verified in U.S. Dollar equivalency at the current exchange rate via either [www.xe.com](http://www.xe.com) or the Wall Street Journal conversion table.
  - A copy of the most recent statement of that account.
  - See the [5.2.2 - Asset Documentation](#) section of this guide for eligible sources and types

of assets. GIFT FUNDS

Gift funds are not allowed.

#### 4.3.2 - NON-OCCUPANT CO-BORROWERS (08/29/2022)

- Non-occupant borrowers are credit applicants on a principal residence transaction who do not occupy the subject property.
- When non-occupant income is used, a 5% LTV reduction from the program maximum is required. • The non-occupant borrower's income is limited to Standard Documentation only.
- Borrower(s) and co-borrower(s) must complete and sign a Non-Occupant Co-Borrower Certification similar to the form this example of a [Non-Occupant Co-Borrower Certification](#) in this guide.
- Occupying borrower(s) must have a DTI ratio of 60% or less. This excludes the income/debts of non-occupant borrower(s).
- Cash out transactions not allowed.
- The non-occupant co-borrower must be included on title of the subject property.

#### 4.3.3 - FIRST-TIME HOME BUYERS (08/29/2022)

An individual is to be considered a first-time home buyer who (1) is purchasing the security property; (2) will reside in the security property as a principal residence; and (3) had no ownership interest (sole or joint) in a residential property during the three-year period preceding the application date of the security property. Note: An individual who is a displaced homemaker or single parent also will be considered a first-time home buyer if he or she had no ownership interest in a principal residence (other than a joint ownership interest with a spouse) during the preceding three-year time period.

The following requirements apply to first-time homebuyer transactions:

- Primary residence only.
- Minimum 680 credit score.
- DTI may not exceed 45%.
- Minimum six (6) months of reserves.
- 12-month rental history is required, reflecting 0x30.

#### 4.3.4 - INELIGIBLE BORROWERS

- Irrevocable Trust
- Land Trust
- Blind Trust
- Borrowers with diplomatic immunity or otherwise excluded from US jurisdiction
- Not-for-profit entity

Any material parties (company or individual) to the transaction listed on HUD's Limited Denial of Participation (LDP) list, the federal General Services Administration (GSA) Excluded Party list, or any other exclusionary list.

#### 4.3.5 - TITLE VESTING AND OWNERSHIP (08/29/2022)

Ownership may be fee simple or leasehold title. For more information regarding leaseholds, see [Section 5.5.6](#) Title must be in the borrower's name (owner-occupied property) at the time of application for refinance transactions.

Eligible forms of vesting are:

- Individuals
- Inter vivos revocable trust
- Joint tenants
- Tenants in Common
- Illinois land trusts

Ineligible forms of vesting

- Land trusts
- IRAs
- Blind trusts

Title vesting in an inter vivos revocable trust is permitted when the requirements set forth in this section are followed. The Fannie Mae<sup>®</sup> requirements should be followed to the extent this section is silent.

The trust must be established by one or more natural persons, solely or jointly. The primary beneficiary of the trust must be the individual(s) establishing the trust. The trust must become effective during the lifetime of the person establishing the trust. If the trust is established jointly, there may be more than one primary beneficiary as long as the income or assets of at least one of the individuals establishing the trust will be used to qualify for the mortgage.

The trustee must include either:

- The individual establishing the trust (or at least one of the individuals, if two (2) or more)
- An institutional trustee that customarily performs trust functions in, and is authorized to act as trustee under the laws of, the applicable state

The trustee must have the power to hold the title, and mortgage the property. This must be specified in the trust. One or more of the parties establishing the trust must use personal income or assets to qualify for the mortgage.

The following documentation is required:

- If the trust was created under California law, a fully executed Certificate of Trust under Section 18100.5 of the California Probate Code.

- If the trust was created under the laws of a state other than California:
  - Attorney's Opinion Letter from the borrower's attorney or Certificate of Trust verifying all the following:
    - The trust is revocable.
    - The borrower is the settler of the trust and the beneficiary of the trust.
    - The trust assets may be used as collateral for a loan.
    - The trustee is:
      - Duly qualified under applicable law to serve as trustee
      - The borrower
      - The settler
      - Fully authorized under the trust documents and applicable law to pledge, or otherwise encumber the trust assets

Limited Liability Companies, Partnerships, Corporations, and S Corporations (each, an "Entity") in accordance with the requirements listed below:

To vest a loan in an Entity, the following requirements must be met:

- Restricted to investment properties only.
- Purpose and activities are limited to ownership and management of real property.
- Entity must be domiciled in a US State.
- Any business structure is limited to a maximum of four (4) owners or members.
- Personal guaranties (full recourse) must be provided by all members of the entity. A Personal Guaranty form is available on the Solve website
- Each Entity member providing a personal guaranty (full recourse) must complete a Form 1003 or similar credit application indicating clearly that such document is being provided in the capacity of guarantor. Only the debt appearing on the personal credit report of individual(s) providing a personal guaranty needs to be reflected on the 1003 loan application. The application of each member providing a personal guaranty and their credit score, and creditworthiness will also be used to determine qualification and pricing.
- No Correspondent Seller shall suggest or encourage the formation of an Entity for the purpose of obtaining a mortgage loan. Such structures shall be initiated and arranged by the members of the Entity.
- The following Entity documentation must be provided:
  - Limited Liability Company
    - Entity Articles of Organization or Partnership
    - Certificate of Good Standing or equivalent
    - Foreign LLC Certificate of Good Standing or equivalent if entity not formed in subject property state
    - Certificate of Authorization for the person executing all documents on behalf of the Entity. The authorization may be determined in an Operating Agreement or other corporate documents. If not, a Borrowing Certificate is required.
      - Borrowing Certificate ([LLC Borrowing Certificate - Single Member](#) or [LLC Borrowing Certificate - Multiple Member](#))
    - Corporate documents that contain a list of owners, title, and ownership percentage, e.g., organization structure
    - Tax Identification Number (Employer Identification Number - EIN)
      - Single Member LLC may use EIN or the guarantor social security number
      - All multi-member LLCs must have an EIN
  - Corporation
    - Filed Certificate/Articles of Incorporation (and all amendments)
    - By-Laws (and all amendments)
    - Certificate of Good Standing (Issued by the Secretary of State (SOS) where the Corporation is incorporated)

- Tax Identification Number (EIN)
- Borrowing Resolution/Corporate Resolution granting authority of signer to enter loan obligation
- Receipt of current year franchise tax payment or clear search
- Partnership
  - Filed Partnership Certificate (if a general partnership, filing with the SOS may not be required)
  - Partnership Agreement (and all amendments)
  - Certificate of Good Standing (Issued by the SOS where the partnership is registered)
  - Tax Identification Number (EIN)
  - Limited partner consents (where required by partnership agreement).

Documents must be completed and signed as follows:

- Signed as an individual by all members of the Entity:
  - Loan Application (Fannie Mae® Form 1003)
    - Completed for each individual member of the Entity.
    - Section labelled “Title will be held in what Name(s)” should be completed with **only** the LLC name.
    - Signed by Individuals
  - Personal Guaranty
    - Completed for each individual member of the entity.
    - The guaranty should be executed at loan closing and dated the same date as the Note.
- Personal Guaranties from community property states (AK, AZ, ID, LA, NM, TX, WA, WI) must be accompanied with a Spousal Consent to Pledge. See Spousal Consent Form.
- Signed by the authorized signer for the entity:
  - Disclosures (e.g., GFE, TIL, ECOA)
  - Any state or federally required settlement statement
  - Note, Deed of Trust/Mortgage, and all Riders

#### 4.3.5.1 - EXAMPLES - SIGNATURE REQUIREMENTS

[Authorized Signatory] may be replaced by a different title as specified in the Member Consent (e.g., Managing Member, Member, etc.).

##### SAMPLE 1:

Borrower: JJ Investors, LLC by James Johnson, Single Member of LLC

##### **Note, Security Instrument, and all Riders:**

Signature Block

JJ INVESTORS, LLC a [ ] limited liability company

James Johnson

By: James Johnson

Title: [Authorized Signatory]

##### SAMPLE 2:

Borrower: JJ Investors, LLC, by James Johnson and Jane Nelson, two

Members of LLC; Both Members are Authorized Signatories of LLC.

**Note, Security Instrument, and all Riders:**

Signature Block

JJ INVESTORS, LLC a [ ] limited liability company

James Johnson,

By: James Johnson

Title: [Authorized Signatory]

**and**

JJ INVESTORS, LLC a [ ] limited liability company

Jane Nelson

By: Jane Nelson

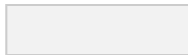
Title: [Authorized Signatory]

**4.3.5.2 - POWER OF ATTORNEY (08/29/2022)**

A limited Power of Attorney is acceptable when all the following are met:

- It is specific to the transaction;
- It is recorded with the Mortgage/Deed of Trust;

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- It contains an expiration date;
- It is used to execute only the final loan documents;
- The Borrower who executed the POA signed the initial 1003;
- An interested party to the transaction (such as seller, broker, loan officer, realtor, etc.) may not act as Power of Attorney.
- Not eligible for cash-out transactions or with Foreign National borrowers.

**4.3.6 - OCCUPANCY TYPES (12/13/2021)**

- Primary Residence – A primary residence is a property that the borrower occupies as his or her principal residence. May also be referred to as owner-occupied.
- Second Home – A second home is a property occupied by the borrower for some portion of the year. The following criteria applies:
  - Restricted to one-unit dwellings
  - Must be suitable for year-round occupancy
  - The borrower must have exclusive control over the property. Cannot be subject to any agreements giving control over occupancy to a management firm, rental pools, or timeshare arrangement.
- Investment Property – An investment property is owned but not occupied by the

borrower. **4.3.7 - BORROWER STATEMENT OF OCCUPANCY (05/02/2022)**

The borrower must acknowledge the intended occupancy of the subject property ("Primary Residence", "Second Home", or "Investment") by completing and signing the appropriate sections of the "Occupancy Certification" found in the Occupancy Certification of this guide.

#### 4.3.8 - BORROWER STATEMENT OF BUSINESS PURPOSE (DSCR - INVESTMENT PROPERTY) (05/02/2022)

All DSCR transactions require the borrower to acknowledge the loan is a business purpose loan by completing and signing the appropriate sections of the Borrower Certification of Business Purpose form in this guide. Solve reserves the right to decline any loan that may indicate the property is not intended exclusively for investment purposes.

Common occupancy red flags include, but are not limited to:

- Subject property value significantly exceeds the value of the borrower's primary residence.
- The borrower is a first-time homebuyer and currently living rent free or renting his/her primary residence.
- Subject property could reasonably function as a second home.
- Borrower documents show subject property as current residence.

#### TRANSACTION TYPES (08/29/2022)

##### 4.4.1 - ELIGIBLE TRANSACTIONS (08/29/2022)

###### 4.4.1.1 - PURCHASE (08/29/2022)

- Proceeds from the transaction are used to finance the acquisition of the subject property.
- LTV/CLTV is based upon the lesser of the sales price or appraised value.
- Assignment of contract or finder's fees reflected on the purchase contract are not eligible to be included in the sales contract price or associated with the LTV/CLTV calculation.

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#### Non-Qualified Mortgage

- The loan file must include a fully executed agreement (purchase contract) of sale and counteroffer (if applicable) reflecting the following:
  - The purchase contract cannot be expired
  - Borrower as the purchaser of the property
  - Seller as the vested owner on title
  - Correct sales price
  - Amount of down payment
  - Closing dates
  - Concessions and seller contributions

###### 4.4.1.2 - RATE/TERM REFINANCE (08/29/2022)

Proceeds from the transaction are used to:

- Pay off an existing first mortgage loan and any subordinate loan used to acquire the property.
- Pay off any subordinate loan not used in the acquisition of the subject property, provided one of the following apply:



- Closed-end loan, at least 12 months of seasoning has occurred.
- HELOC, at least 12 months of seasoning has occurred, and total draws over the past 12 months are less than \$2,000. (For business purpose transactions, any draw over the life of the loan may not have been used for personal use. Business purpose transactions will require a draw history schedule, along with an attestation from the borrower, in the credit file, that none of the advances were used for personal/consumer use).
- Buy out a co-owner pursuant to an agreement.
- Pay off an installment land contract executed more than 12 months from the loan

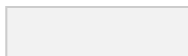
application date. Other considerations:

- Cash back in an amount not to exceed the lesser of 2% of the new loan amount or \$5,000 can be included in the transaction.
- If the subject property was acquired greater than six (6) months from application date, the appraised value will be used to determine LTV/CLTV. If the property was acquired less than or equal to six (6) months from the application date, the lesser of the current appraisal value or previous purchase price plus documented improvements (if any) will be used to determine LTV/CLTV. The purchase settlement statement and any invoices for materials/labor will be required.
- Refinance of a previous loan that provided cash out, as measured from the previous note date to the application date, and is seasoned less than 12 months, will be considered a cash out refinance.

#### 4.4.1.3 - CASH-OUT (08/29/2022)

- A refinance that does not meet the definition of a rate/term transaction is considered cash-out. • See Loan/LTV Matrices for maximum cash-out amounts and restrictions.
- A mortgage secured by a property currently owned free and clear is considered cash-out. • The payoff of delinquent real estate taxes (60 days or more past due) is considered cash-out. • If the cash-out is for personal, family, or household use, the loan must also meet all applicable federal and state requirements of a consumer loan transaction even if the borrower is a company or the loan was initially intended for business purposes, including but not limited to the requirements of the Truth in Lending Act (15 U.S.C. § 1601 et seq.), Real Estate Settlement Procedures Act (12 U.S.C. § 2601 et seq.), Gramm-Leach Bliley Act (15 U.S.C. §§ 6802-6809), Secure and Fair Enforcement Mortgage Licensing Act (12 U.S.C. § 5601 et seq.) and Homeowners Protection Act (12 U.S.C. § 4901 et seq.).

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#### Non-Qualified Mortgage

- Cash-out eligible to satisfy the reserve requirements.
- Loans not eligible for cash-out:
  - Primary Residence or Second Home properties listed for sale in the past six (6) months.
  - Investment properties listed for sale in the past six (6) months, unless a three (3) year prepay penalty, per requirements in Section 4.4.7 Prepayment Penalty are met.
  - There has been a prior cash-out transaction within the past six (6) months
  - Payoff of a Land Contract/Contract for Deed.
  - Non-Owner Occupied investment property transactions (Investor DSCR) when proceeds from the loan transaction are used for consumer purpose, i.e., payoff personal debt, personal tax lien(s), personal judgments, personal collection, or lines of credit secured by the subject property.
- Cash-Out Seasoning is defined as the time difference between application date of the new loan

and the property acquisition date.

- A minimum borrower seasoning requirement of six (6) months is required for a transaction to be eligible for cash-out.
- For properties owned 12 months or longer, the LTV/CLV is based upon the appraised value. ○ If the cash-out seasoning is less than 12 months, but greater than 6 months, the transaction property value is limited to the lower of the current appraised value or the property's purchase price plus documented improvements.
- Cash-out seasoning of six (6) months or less is allowed with the following restriction:
  - The Seller has documented that the borrower acquired the property through an inheritance, or was legally awarded the property through divorce, separation, or dissolution of a domestic partnership.

#### 4.4.1.4 - DELAYED FINANCING (12/13/2021)

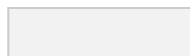
- Delayed purchase financing is eligible when a property was purchased by a borrower for cash within 180 days of the loan application.
  - The original purchase transaction was an arms-length transaction.
  - The source of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property).
  - The maximum LTV/CLTV ratio for the transaction is based upon the lower of the current appraised value or the property's purchase price plus documented improvements.
  - The preliminary title search or report must confirm that there are no existing liens on the subject property
  - The transaction is considered cash-out; cash-out pricing adjustors apply
  - The new loan amount can be no more than the actual documented amount of the borrower's initial investment subject to the maximum LTV/CLTV for cash-out transactions.

#### 4.4.2 - LISTING SEASONING (08/29/2022)

For all cash-out refinances:

- **Primary/Second Home:** Properties previously listed for sale must be seasoned at least six (6) months from the listing contract expiration date to the loan application date.
- **Investment Properties:** A listing expiration of less than six (6) months is permitted with a prepayment penalty. If a property is listed for sale, the listing must be cancelled prior to the note date.

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#### 4.4.3 - NON-ARM'S LENGTH TRANSACTIONS (04/25/2022)

##### 4.4.3.1 - NON-ARM'S LENGTH TRANSACTION

A non-arm's length transaction occurs when the borrower has a direct relationship or business affiliation with subject property builder, developer, or seller. Examples of non-arm's length transactions include

family sales, property in an estate, employer/employee sales, and flip transactions.

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

A non-arm's length transaction is not intended to bail out a family member who has had difficulties making their mortgage payment. A thorough review of the title report in these cases is required, as well as the payment history pattern (verification of the Seller's mortgage [VOM]).

#### 4.4.3.2 - ELIGIBLE NON-ARM'S LENGTH TRANSACTIONS (08/29/2022)

- Renter(s) purchasing from landlord.
  - 24 months of cancelled checks to prove timely payments are required.
  - A verification of rent (VOR) is not acceptable.
- Purchase between family members.
  - Full Documentation only.
  - Gift of Equity requires a gift letter, and the equity gift credit is to be shown on the CD. ○ Must provide a 12-month mortgage history on the existing mortgage securing the subject property, confirming the Family Sale is not a foreclosure bailout.

#### 4.4.3.3 - NON-ARM'S-LENGTH RESTRICTIONS (08/29/2022)

- Primary residences only.
- Borrower to provide verification of earnest money deposit.
- Maximum LTV/CLTV of 80%.
- For-Sale-By-Owner (FSBO) transactions must be arm's-length.
- Employer to employee sales or transfers are not allowed.
- Property trades between buyer and Seller are not allowed.
- Commission earned by buyer/borrower cannot be used for down payment, closing costs, or monthly PITIA reserves.

#### 4.4.4 - INTERESTED PARTY CONTRIBUTIONS (SELLER CONCESSIONS)

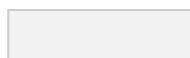
##### Owner Occupied

- Maximum contribution:
  - 6% for LTVs  $\leq$  80%
  - 4% for LTV > 80%

##### Non-Owner Occupied

- May not exceed 3%

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All Interested Party Contributions must be properly disclosed in the sales contract, appraisal, loan estimate and closing disclosure and be compliant with applicable federal, state, and local law.

Interested party contributions include funds contributed by the property seller, builder, real estate agent/broker, mortgage lender, or their affiliates, or any other party with an interest in the real estate

transaction.

Interested party contributions may only be used for closing costs and prepaid expenses (Financing Concessions) and may never be applied to any portion of the down payment or contributed to the borrower's financial reserve requirements. If an Interested Party Contribution is present, both the appraised value and sales price must be reduced by the concession amount that exceeds the limits referenced above.

#### 4.4.5 - ESCROWS - IMPOUND ACCOUNTS (08/29/2022)

Escrow funds/impound accounts are required to be established for all HPML loans purchased by Solve. Escrows may be established for funds collected by the seller, originator or servicer as required to be paid under the security instrument. Escrow funds include, but are not limited to, taxes, insurance (hazard, flood, and other insurance) premiums, water/sewer taxes and ground rents.

Escrow funds/impound accounts can be waived, with the exception of Flood Insurance Premium, for non-HPML loans or exempt business purpose loans when the following requirements are met:

- LTV less than 80%
- Minimum decision credit score of 720
- Minimum 12-months of reserves
- Pricing adjustment may apply, see rate sheet.

#### 4.4.6 - SECONDARY FINANCING

Secondary financing must be institutional. Sellers must employ reasonable underwriting policies and procedures designed to determine whether the borrower has applied for another credit transaction secured by the same dwelling. Existing secondary financing must be subordinated and recorded or refinanced. HELOC CLTV must be calculated at the maximum available line amount unless the borrower can provide documentation showing the line of credit is past its draw period.

#### 4.4.7 - PREPAYMENT PENALTY (08/29/2022)

##### **Investment Property Only**

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

- Six (6) months of interest - The prepayment charge will be equal to six (6) months of interest on the amount of the prepayment that exceeds 20% of the original principal balance. The charge applies to loans that pay off due to sale or refinance, or curtailments that exceed 20% of the original principal balance in a given 12-month time period. (Not eligible under cross-collateral, 5-8 unit, or 2-8 mixed use.)
- A fixed percentage of no less than 3% - The prepayment charge will be equal to a fixed percentage and applied to any curtailment or the entire outstanding principal balance during the prepay period. The charge applies to loans that pay off due to sale or refinance.
- Declining structures that do not exceed 5% and do not drop below 3% in the first 3 years. For example: (5%/4%/3%/3%/3%) or (5%/4%/3%/2%/1%) - The prepayment charge will be equal to the percentage in effect and applied to any curtailment or the entire outstanding principal balance during the prepay period. The charge applies to loans that pay off due to sale or refinance.

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

The following state restrictions apply:

- Prepayment penalties are not allowed in AK, KS, MI, MN, NM, OH, and RI.
- Prepayment penalties are not allowed on loans vested to individuals in IL and NJ.
- Pennsylvania - Prepayment penalties are not allowed on loan balances less than an adjusted value as determined by the Dept of Banking & Securities. For calendar year 2022 the base figure amount is \$278,204.
- Only declining prepayment penalty structures are allowed in MS.

## SECTION 5 - CREDIT

### CREDIT REPORTS (04/25/2022)

A credit report is required for each individual borrower, including any member of an entity providing a personal guaranty. The credit report should provide merged credit data from the three major credit repositories: Experian, TransUnion, and Equifax. Either a three-bureau merged report, or a Residential Mortgage Credit Report is required.

- The credit report used to evaluate a loan may not reflect a security freeze. If the borrower(s) unfreeze credit after the date of the original credit report, a new tri-merged report must be obtained to reflect current and updated information from all repositories.

#### 5.1.1 - GAP CREDIT REPORTING

A gap credit or Undisclosed Debt Monitoring report is required no more than 10 days prior to loan closing or any time after closing. Any new debt must be included in determining the DTI ratio. Business purpose DSCR transactions are excluded from this requirement.

#### 5.1.2 - FRAUD REPORT (08/29/2022)

Data integrity is crucial to quality loan file delivery and mitigation of fraud risk. All parties to the transaction (Borrowers, Sellers, Brokers, Loan Officers, and Real Estate Agents) must be included in the fraud report performed by an automated fraud and data check vendor solution (i.e., Fraud Guard, CoreLogic, DataVerify, TransUnion TLOxp, LexisNexis: SmartLinx, Instant ID, or other industry recognized fraud and data vendor). A copy of the findings report from the vendor must be provided in the loan file with all “high” alerts, or “red flags” addressed and/or cleared by the seller (lender).

Sellers may clear “high” alerts or “red flags” directly through the vendor solution or with an attestation. The attestation must address each “high” alert, or “red flag” noted in the fraud report. Seller may request additional documentation to address high fraud risk.

Fraud Reports for loans secured by multiple properties (Cross Collateral) do not need to reference every property, all other requirements apply.

#### 5.1.3 - CREDIT INQUIRIES (06/21/2021)

Creditor must obtain verification from borrower in the form of a signed statement attesting that their current obligations are accurate. Additionally, any credit inquiries listed on the report within 90 days of the report date must be explained, DSCR transaction excluded. If new credit was extended, borrowers must provide documentation on the

## Non-Qualified Mortgage

current balance and payment. If no credit was extended, borrower must state the purpose of the inquiry. Sellers must inform borrowers that they are obligated to inform the Seller of any new extension of credit, whether unsecured or secured, that takes place during the underwriting process and up to the consummation of the loan.

### 5.1.4 - HOUSING HISTORY (04/25/2022)

A 12-month housing payment (mortgage or rental) history is required for all Solve programs. A borrower's combined mortgage or rental history is used for program or grade eligibility.

#### 5.1.4.1 - MORTGAGE VERIFICATION (04/25/2022)

A 12-month mortgage history is required for all financed properties owned by the borrower (with the exception of the DSCR program – See [Housing History - DSCR](#) for Housing History requirements).

Current means the borrower has made all mortgage payments up to and including the month prior to the note date. If the credit report does not reflect the current payment history, one of the following additional documents is required:

- A loan payment history from the servicer or third-party verification service,
- A payoff statement (for mortgages being refinanced),
- The latest mortgage account statement from the borrower, or
- A verification of mortgage.

For properties owned free and clear, a property profile report or similar document showing no liens against the property should be included in the credit file. Any balloon notes with an expired maturity date exceeding 30 days requires an extension to avoid being counted as delinquent.

If a borrower's mortgage history is not reported on the credit report, a VOM must be provided. Any VOM completed by a private-party Seller, or any non-institutional lender must be supported by alternative documentation showing the most recent 6-month history (cancelled checks, mortgage statements including payment history, etc.).

In addition, if the subject transaction is secured by a non-institutional lender, the mortgage payoff statement should be reviewed to determine that no late fees or delinquent interest is included in the payoff amount. For properties owned free and clear, a property profile report or similar document showing no lien against the property should be provided in the credit file.

Rolling late payments are not considered a single event. Each occurrence of a contractual delinquency is considered individually for loan eligibility.

#### 5.1.4.2 - RENTAL VERIFICATION (04/25/2022)

A 12-month rental history is required for all Solve programs when the borrower is renting their current primary residence. The following documents are required:

- A verification of rent (VOR)
  - A third-party VOR is required for any file when the borrower is currently renting.
  - Any VOR completed by a private party or any non-institutional landlord must be supported by alternative documentation showing the most recent 6-month history (cancelled checks,

rental statements including payment history, etc.).

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### 5.1.4.3 - LIVING RENT-FREE

Borrowers who live rent-free or without a complete 12-month housing history are allowed, with the following restrictions:

- DTI may not exceed 43%
- Any available portion of a 12-month housing history must be paid as agreed.
- Borrower(s) who own their primary residence free and clear are not considered living rent-free. • Borrower(s) who sold a primary residence within the past six (6) months and are currently residing rent-free until subject transaction closes are not considered living rent-free.

### 5.1.4.4 - DEPARTURE RESIDENCE

- If the borrower's current principal residence is pending sale but the transaction will not close prior to the subject transaction, the current PITIA and proposed PITIA must be used in qualifying the borrower. The current PITIA may be excluded provided the credit file is documented with the following:
  - The executed sales contract for the current residence, and
  - Confirmation that any financing contingencies have been cleared.
- If the borrower plans to convert their departure residence to a rental property, the current PITIA and proposed PITIA must be used in qualifying the borrower. The current PITIA may be excluded provided the credit file is documented with all the following:
  - Market Rent Analysis, Single Family Comparable Rent Schedule (Fannie Mae® Form 1007)
  - Copy of a current lease
  - Evidence of proof of receipt of damage deposit and first month's rent.

### 5.1.5 - CONSUMER CREDIT (06/21/2021)

#### 5.1.5.1 - INSTALLMENT DEBT

Installment debt is a monthly obligation with fixed payments and terms. Payments on installments must be included in the borrower's debt-to-income (DTI) ratio.

Payments can be excluded if there are 10 or fewer monthly payments remaining to pay the debt in full. If the payment is substantial and exceeds 5% of the borrower's qualifying income, the overall transaction should be reviewed to ensure the remaining payments will not impact the borrower's ability to handle the new mortgage payment.

Installment debt paid in full or prior to closing can be excluded from the debt-to-income ratio. Supporting documentation, such as a credit supplement or direct verification from the creditor, must be obtained as evidence the debt has been paid in full.

#### 5.1.5.2 - LEASE PAYMENTS

Lease payments must be considered as recurring monthly debt obligations and included in DTI ratio calculation. This is regardless of the number of months remaining on the lease. This is because the expiration of a lease agreement for rental housing or an automobile typically leads to either a new lease agreement, the buyout of the existing lease, or the purchase of a new vehicle or house.

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### 5.1.5.3 - STUDENT LOANS

If a monthly student loan payment is provided on the credit report, the Seller may use that amount for qualifying purposes. If the credit report does not reflect the correct monthly payment, the Seller may use the monthly payment that is on the student loan documentation (the most recent student loan statement) to qualify the borrower. If the credit report does not provide a monthly payment for the student loan, or if the credit report shows \$0 as the monthly payment, the Seller must determine the qualifying monthly payment. For deferred loans or loans in forbearance, the Seller may calculate:

- a payment equal to 1% of the outstanding balance (even if this amount is lower than the actual fully amortizing payment), or
- a fully amortizing payment using the documented loan repayment terms.

### 5.1.5.4 - DEFERRED INSTALLMENT DEBT

Deferred installment debts must be included as part of the borrower's recurring monthly debt obligations. For deferred installment debts other than student loans, if the borrower's credit report does not indicate the monthly amount that will be payable at the end of the deferment period, the Seller must obtain copies of the borrower's payment letters or forbearance agreements so that a monthly payment amount can be determined and used in calculating the borrower's total monthly obligations.

### 5.1.5.5 - REVOLVING DEBT

Revolving debt is open-ended debt in which the principal balance may vary from month to month. The minimum required payment, as stated on the credit report or current account statement, should be used to calculate the debt-to income ratio. If no payment is stated on the credit report, the greater of \$10 or 5% of the current balance should be included in the DTI ratio calculation.

Equity lines of credit secured by real estate should be included in the housing expense. If the credit report does not show a minimum payment amount, the Seller must use 5% of the outstanding balance to be included in the DTI ratio calculation.

Revolving accounts can be paid off prior to or at closing in order to exclude the payment from the debt ratio. Supporting documentation, such as a credit supplement or direct verification from the creditor, must be obtained as evidence the debt has been paid in full.

Any non-mortgage account can be no more than 30 days delinquent at time of application. Any delinquent account must either be brought current or paid off at closing.

All mortgage accounts must be current at application and remain paid as agreed



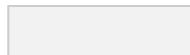
#### through closing. 5.1.5.6 - OPEN 30-DAY CHARGE ACCOUNTS (12/13/2021)

For open 30-day charge accounts that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, lenders must verify borrower funds to cover the account balance. The verified funds must be in addition to any funds required for closing costs and reserves.

#### 5.1.5.7 - TIMESHARES

Timeshare obligations will be treated as a consumer installment loan.

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#### 5.1.5.8 - BUSINESS DEBT

A business debt is a financial obligation of a business but may also be the responsibility of the business owner, making that person also liable for the debt. If the debt is reflected on the borrower's personal credit report, the borrower is personally liable for the debt, and it must be included in the debt-to-income ratio. When a self-employed borrower claims that a monthly obligation that appears on his or her personal credit report (such as a Small Business Administration loan) is being paid by the borrower's business, the lender must confirm that it verified that the obligation was actually paid out of company funds to exclude the debt.

Any of the following supporting documentation can be included in the credit file to exclude business debt:

- Most recent six (6) months of cancelled checks drawn against the business account

- Tax returns reflecting the business expense deduction
- Business bank account statement showing assets remaining after funds to close and reserve requirements are deducted, with a balance greater than or equal to the balance of the debt.

If the debt is less than six (6) months old, the payment must be included in the DTI ratio.

#### 5.1.5.9 - CONTINGENT LIABILITY ON COSIGNED OBLIGATIONS (DEBT PAID BY OTHERS)

Contingent liability applies, and the debt must be included in the underwriting analysis, if an individual applying for a mortgage is a cosigner/co-obligor on:

- Car loan
- Student loan
- Mortgage
- Any other obligation

If the Seller obtains proof that the borrower is not the party who is repaying the debt, the Seller may exclude the debt. In order to exclude debts from the borrower's DTI ratio, the Seller must obtain the most recent 12 months' canceled checks (or bank statements) from the other party making the payments that document a 12-month payment history with no delinquent payments.

#### 5.1.5.10 - CONSUMER CREDIT CHARGE-OFFS AND COLLECTIONS (06/21/2021)

Delinquent credit, such as charge-offs of non-mortgage accounts and collections, have the potential

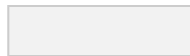
to affect loan position or diminish borrower equity.

- Individual collection and non-mortgage charge-off accounts equal to or greater than \$250, and accounts that total more than \$2,000, must be paid in full prior to or at closing. See below for exception.
- Medical collections may remain open with a max cumulative balance of \$10,000.
- A second mortgage or junior lien that has been charged off is subject to foreclosure seasoning periods for grade determination, based on the charge-off date.
- Collections and charge-offs that have expired under the state statute of limitations on debts may be excluded from the DTI calculation. Evidence of expiration must be documented.
- For DSCR transactions, charge-offs and collections can be ignored unless they are title impacted.

Charge-offs and collections not excluded by the above bullet points must be paid or may stay open if using one or a combination of both of 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.
  - Reserves are sufficient to cover the balance of the charge-offs or collections and meet reserve requirements.

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#### 5.1.5.11 - CONSUMER CREDIT COUNSELING SERVICES

Borrower enrollment in Consumer Credit Counseling Services (CCCS) is allowed when a minimum of 12 months have elapsed on the plan, and evidence of timely payments for the most recent 12 months is provided. The CCCS Administrator must also provide a letter allowing the borrower to seek financing on a new home while enrolled in the plan.

A monthly CCCS plan payment must be included in the DTI calculation.

#### 5.1.5.12 - JUDGMENT OR LIENS

All open judgments, garnishments, and all outstanding liens must be paid off prior to or at

loan closing. 5.1.5.13 - INCOME TAX LIENS (06/21/2021)

All tax liens (federal, state, and local) must be paid off prior to or at loan closing unless the requirements listed below are met:

- The file must contain a copy of the approved IRS installment agreement with the terms of repayment, including the monthly payment amount and total amount due (Only one plan allowed).
- A minimum of two (2) payments has been made under the plan with all payments made on time and the account is current. Acceptable evidence includes the most recent payment reminder from the IRS, reflecting the last payment amount and date and the next payment amount owed and due date.
- The maximum payment required under the plan is included in the DTI calculation.
- The balance of the lien, or repayment plan, must be included when determining the maximum CLTV for the program.
- Refinance transactions require a subordination agreement from the taxing authority for liens against the subject property.

#### 5.1.5.14 - DISPUTED ACCOUNTS

When the credit report contains tradelines disputed by the borrower, the credit file should be documented with a credit supplement showing the account(s) have been resolved. If the disputed account balance is \$250 or less, the payment can be included in the total debt calculation and the account can remain in dispute. The total aggregate balance of accounts in dispute remaining unresolved can't exceed \$2,000.

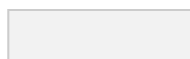
#### 5.1.6 - BANKRUPTCY HISTORY

Recent bankruptcies are not allowed. All bankruptcies must be settled a minimum of twelve (12) months. Specific programs may have longer periods, see Product Matrices for details. Evidence of bankruptcy resolution is required. The length of time is measured from the discharge/dismissal date to the Note date.

#### 5.1.7 - FORECLOSURE SEASONING

Foreclosures must be completed a minimum of twelve (12) months. Specific programs may have longer periods, see Product Matrices for details. The length of time is measured from the settlement date to the Note date. In the case of a foreclosure which was included in a bankruptcy, the seasoning timeline will start from the earlier of the date of discharge of bankruptcy and the foreclosure completion date.

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#### 5.1.8 - SHORT SALE / DEED-IN-LIEU SEASONING

Short Sales and Deeds-in-Lieu of Foreclosures must be completed a minimum of twelve (12) months. Specific programs may have longer periods, see Product Matrices for details.

In the case of a short sale/deed-in-lieu which was included in a bankruptcy, the seasoning timeline will start from the earlier of the date of discharge of bankruptcy and the short sale/deed-in-lieu completion date.

#### 5.1.9 - FORBEARANCE, MODIFICATION, OR DEFERRALS (08/29/2022)

Forbearance, loan modifications, or deferrals (including COVID-19 related events) are treated as a short sale / deed in-lieu for eligibility and pricing purposes. Any loan payment history that appears to reflect the above may require additional documentation, such as canceled checks or bank statements to show payments were made.

#### 5.1.10 - CREDIT SCORE (12/13/2021)

Loan eligibility is based upon the representative credit score, also referred to as the Decision Credit score. A valid Decision Credit score requires at least one (1) borrower to have a minimum of two (2) credit scores. To determine a borrower(s) credit score, use the lower of two (2) or middle of three (3) credit scores.

For a loan file with one borrower, that borrower's score is the decision credit score.

For loan files with multiple borrowers:

- **Standard and Alt Documentation:** The borrower with the higher monthly income is considered the primary borrower and their credit score can be used as the Decision Credit Score. When both borrowers are self employed and jointly own the business, use the lowest score amongst the borrowers as the decision credit score.
- **Asset Utilization and DSCR Documentation Options:** Use lowest score amongst all borrowers who will be on the loan as the decision credit score.

#### 5.1.11 - TRADELINES (08/29/2022)

##### 5.1.11.1 - STANDARD TRADELINES (04/25/2022)

**Alt-A / Non-Prime:** If the primary borrower has three (3) credit scores, the minimum tradeline requirement is waived. For loans when the primary borrower has less than three credit scores, each borrower must meet the minimum tradeline requirements, unless the co-borrower is the spouse of the borrower. In that case, only one spouse is required to meet the minimum tradeline requirements outlined below.

**Investor Solutions – DSCR:** For each borrower who has three (3) credit scores, the minimum tradeline requirement is waived (all borrowers must be evaluated individually). Each borrower with less than three (3) credit scores must meet the minimum tradeline requirements outlined below.

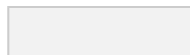
The **minimum tradeline requirements** are as follows:

- At least three (3) tradelines reporting for a minimum of 12 months, with activity in the last 12 months, or
- At least two (2) tradelines reporting for a minimum of 24 months, with activity in the last 12 months.

Borrowers who do not meet one of the above tradeline requirements, but have a minimum of two credit scores, can alternatively satisfy the tradeline requirement by meeting the requirements below:

- No fewer than eight (8) tradelines are reporting, one (1) of which must be a mortgage or a rental history.
- At least one (1) tradeline has been open and reporting for a minimum of twelve (12) months.

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- The borrower has an established credit history for at least eight (8) years.
- Tradelines with recent serious adverse history are not acceptable
- Student loans can be counted in credit depth as long as they are in repayment and not being deferred

The following are not acceptable to be counted as tradelines:

- “non-traditional” credit as defined by Fannie Mae®
- collection accounts
- self-reported tradeline
- foreclosures
- any liabilities in deferment status
- deed-in-lieu of foreclosure
- accounts discharged through bankruptcy
- short sales
- authorized user accounts
- pre-foreclosure sales
- charge-offs

#### 5.1.12 - OBLIGATIONS NOT APPEARING ON CREDIT REPORT

#### 5.1.12.1 - HOUSING AND MORTGAGE-RELATED OBLIGATIONS (04/25/2022)

Housing and mortgage-related obligations include property taxes, insurance premiums, and similar charges that are required by the creditor (i.e., mortgage insurance), ground rent, and leasehold payments. All properties owned by the borrower must be fully documented in this regard on the Schedule of Real Estate Owned (REO) section of the Form 1003 loan application. These obligations must be verified (subject to the program criteria) using reasonably reliable records such as taxing authority or local government records, homeowner's association billing statements, or information obtained from a valid and legally executed contract.

#### 5.1.12.2 - CURRENT DEBT OBLIGATIONS, ALIMONY, AND CHILD SUPPORT

A Seller may use a credit report to verify a borrower's current debt obligations, unless the Seller has reason to know that the information on the report is inaccurate or disputed. Obligations that do not appear on the credit report, such as alimony and child support, must be documented through other methods according to Fannie Mae® guidelines.

When the borrower is required to pay alimony, child support, or separate maintenance payments under a divorce decree, separation agreement, or any other written legal agreement - and those payments must continue to be made for more than 10 months - the payments must be considered as part of the borrower's recurring monthly debt obligations. However, voluntary payments do not need to be taken into consideration and an exception is allowed for alimony. For alimony obligations, the Seller has the option to reduce the qualifying income by the amount of the alimony obligation in lieu of including it as a monthly payment in the calculation of the DTI ratio. If the Seller exercises this option, a copy of the divorce decree, separation agreement, court order, or equivalent documentation confirming the amount of the obligation must be obtained and retained in the loan file.

#### **ASSETS (06/21/2021)**

#### **THE FOLLOWING APPLY TO ALL TRANSACTIONS UNLESS OTHERWISE**

#### **STATED. 5.2.1 - ASSET REQUIREMENTS (09/07/2021)**

Acceptable asset documentation is required to be included in each loan file. The borrower must meet the minimum contribution amount per the program requirements. Assets should be liquid or able to be liquidated without restriction by the borrower. The documentation requirement for all transactions is a single account statement covering a one (1) month period and dated within 90-days of the loan note date.

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#### 5.2.2 - ASSET DOCUMENTATION (06/21/2021)

The following may be used as asset documentation for down payment, closing costs, and reserves. See applicable Loan/LTV matrix for minimum reserve requirement.

- Account statements (e.g., checking, savings, share, or brokerage accounts)
  - Statements must include the following:
    - Name of financial institution

- Reflect borrower as the account holder (Funds held jointly with a non-borrowing spouse are considered 100% of the borrower's funds)
- Account number
- Statement date
- Time period covered by the statement
- Available balance in U.S. dollar denomination
- Assets held in foreign accounts must be translated to English and verified in US Dollar equivalency at the current exchange rate via either <http://www.xe.com> or the Wall Street Journal conversion table.
  - Accounts verified using a third-party vendor participating in the Fannie Mae Day 1 Certainty® process.
  - Verification of Deposit completed by the verifying financial institution (Fannie Mae® Form 1006).

Large deposits on any of the above asset documentation must be sourced. Large deposits are defined as any single deposit that represents more than 50% of the borrower's qualifying monthly income. Large deposits do not need to be sourced on Investor Solution – DSCR loans.

- Stocks/bonds/mutual funds - 100% of the account(s) value may be considered for assets.
- Vested retirement account (e.g., IRA, 401k, Keogh, 403b) - 70% of the vested balance may be considered for assets.
- Business accounts may be considered for assets. The amount of business assets that may be utilized is limited to the borrower's ownership percentage in the business.
- Cash Value of Life Insurance - 100% of the cash surrender value less any loans may be considered for assets.
- Non-regulated Financial Assets
  - Crypto Currency – Bitcoin and Ethereum are eligible sources of funds for the down payment, closing costs and reserves. Crypto is not an eligible liquid asset for asset utilization/depletion.
    - Down payment and closing costs: currency must be liquidated and deposited into an established US bank account.
    - Reserves: Loan file must include a statement meeting the requirements under account statements to document ownership of the crypto holdings. Current valuation, within 30-days of the loan Note date, can only be determined from the Coinbase exchange. 60% of the current valuation will be considered eligible funds.

The following are not acceptable as asset documentation:

- Non-vested or restricted stock accounts
- Cash-on-hand
- Sweat equity
- Gift or Grant funds which must be repaid
- Down payment assistance programs
- Unsecured loans or cash advances

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### 5.2.3 - RESERVES

- Solve loan program requires minimum reserves as outlined on the Solve Loan\LTV matrices.
- Net proceeds from a cash-out transaction maybe used to meet reserve requirements.
- Reserve requirements are waived for Rate-And-Term Refinance transactions (Applies to loans under Alt-A,,

Non-Prime and DSCR secured by a 1-4 unit property) when the transaction results in a reduction to the monthly principal and interest payment of 10% or greater AND housing history is 1x30x12 or better. Waiver not eligible for DTI greater than 50%. For an Interest Only loan, the reduction is based on the amortizing payment used for loan qualification.

- Reserves for a loan with an Interest Only feature are based upon the Interest Only payment amount.
- For Adjustable-Rate Mortgages (ARM), the reserves are based upon the initial PITIA, not the qualifying payment.
- Proceeds from a 1031 Exchange cannot be used to meet reserve requirements.

## 5.2.4 - GIFT FUNDS

Unless otherwise specified, Gift Funds are acceptable if ONE of the following applies:

1. For Owner-occupied properties a 5% down payment has been made by the borrower from their own funds.
  - 100% Gift Funds are allowed for Alt-A and Non-Prime using Standard Doc or Alt Doc 24-month Bank Statement loans only, with a maximum LTV of 75%. Borrower(s) must meet both reserve and residual income requirements.
2. For Investment properties, a minimum of 10% of the down payment must be made by the borrower from their own funds.

### 5.2.4.1 - ELIGIBLE DONORS AND DOCUMENTATION

A gift can be provided by:

- a relative, defined as the borrower's spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship; or
- a fiancé, fiancée, or domestic partner.

The donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction.

## DOCUMENTATION REQUIREMENTS

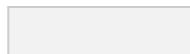
Gifts must be evidenced by a letter signed by the donor, called a gift letter. The gift letter must:

- specify the dollar amount of the gift;
- specify the date the funds were transferred;
- include the donor's statement that no repayment is expected; and
- indicate the donor's name, address, telephone number, and relationship to the borrower.

When a gift from a relative or domestic partner is being pooled with the borrower's funds to make up the required minimum cash down payment, the following items must also be included:

- A certification from the donor stating that he or she has lived with the borrower for the past 12 months and will continue to do so in the new residence.

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- Documents that demonstrate a history of borrower and donor shared residency. The donor's address must be the same as the borrower's address. Examples include but are not limited to a

copy of a driver's license, a bill, or a bank statement.

## VERIFYING DONOR AVAILABILITY OF FUNDS AND TRANSFER OF GIFT FUNDS (06/21/2021)

The lender must verify that sufficient funds to cover the gift are either in the donor's account or have been transferred to the borrower's account and reflected on the most recent bank statement. Acceptable documentation includes the following:

- a copy of the donor's check and the borrower's deposit slip,
- a copy of the donor's withdrawal slip and the borrower's deposit slip,
- a copy of the donor's check to the closing agent, or
- a settlement statement showing receipt of the donor's check.

When the funds are not transferred prior to settlement, the lender must document that the donor gave the closing agent the gift funds in the form of a certified check, a cashier's check, or other official check.

- Gift funds may not be used to meet reserve requirements.
- Gift of Equity allowed for Primary Residence or Second Homes. Must meet all other guidelines for

Gift Funds. ☐ **INCOME (04/25/2022)**

### 5.3.1 - INCOME ANALYSIS (04/25/2022)

**THE FOLLOWING APPLY TO ALL INCOME DOCUMENTATION OPTIONS UNLESS OTHERWISE STATED IN THE SPECIFIC SECTION OF THE GUIDELINES.**

#### 5.3.1.1 - EMPLOYMENT/INCOME VERIFICATION

- A minimum two (2) year employment history is required to be documented on the loan application (1003). When the borrower has less than a two-year history of employment, the Seller should document positive factors to offset the shorter employment history, such as education or training.
- Any gaps in employment that span one or more months must be explained.
- Salary/Wage Earner – income derived from employment at a business. Compensation may be based upon a salary, hourly wage, bonus, commission, or overtime.
- Any borrower with a 25% or greater ownership interest in a business/entity or is paid using IRS form 1099 is considered self-employed.
- The following are common business structures:
  - Sole proprietorship
  - Limit Liability Company (LLC)
  - Partnerships
  - S-Corporation
  - Corporation
- If any borrower is no longer employed in the position disclosed on the Form 1003 at the Solve purchase date, Solve will not purchase the loan.



### 5.3.1.2 - STABILITY OF INCOME

- Stable monthly income is the borrower's verified gross monthly income which can be reasonably expected to continue for at least the next three (3) years. The Seller must determine that both the source and the amount of the income are stable.
- A two-year employment history is required for the income to be considered stable and used for qualifying. • When the borrower has less than a two-year history of receiving income, the Seller must provide a written analysis to justify the stability of the income used to qualify the borrower.
- While the sources of income may vary, the borrower should have a consistent level of income despite changes in the sources of income.

### 5.3.1.3 - EARNINGS TRENDS (08/29/2022)

Year-to-date (YTD) income amounts must be compared to prior years' earnings using the borrower's W-2 forms, signed federal income tax returns, or bank statements. The earnings trends are addressed as follows:

- Stable or increasing: The income amounts will be averaged.
- Declining but stable: If the 24-month earnings trend shows a decline in borrower income, but the most recent 12-month earning has stabilized and there is no reason to believe the borrower's employment will change, the most recent 12-month average of income will be used.
- Declining: If the trend is declining, the income is not eligible.

### 5.3.2 - DEBT-TO-INCOME (DTI) RATIO

The Debt-to-Income (DTI) ratio is calculated and reviewed for adherence to Solve guidelines and the inclusion of all income and liability expenses. See the most recent program matrix for applicable details.

The DTI ratio consists of two components:

1. Total monthly debt obligations, which includes the qualifying payment for the subject property mortgage loan and other long-term and significant short-term monthly debts.
2. Total monthly income of all borrowers, to the extent the income is used to qualify for the mortgage.

The subject property mortgage loan is defined as the borrower's housing payment and includes PITIA and/or principal and interest on any subordinate lien financing.

The property taxes, Homeowner's Insurance (HOI), Flood Insurance, and HOA dues of a primary residence that is owned free and clear will be considered in the borrower's housing history determination and must remain current throughout the transaction.

The maximum DTI ratio for all income documentation types is 50%. A DTI of up to 55% is allowed in some cases for a primary residence, with 24-months of income documentation, and with a minimum residual income of \$3,500. See the Product Matrices for specific program restrictions.

### 5.3.3 - RESIDUAL INCOME (08/29/2022)

Residual Income is the amount of monthly income remaining once a borrower has paid all monthly debt obligations. Residual Income = Gross Monthly Income minus total monthly debt.

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The Minimum Residual Income requirements are calculated using the table below; \$250 is added for the first dependent and \$125 for each additional dependent. A dependent is any person other than the borrower or spouse in the household.

OCCUPANCY	MAXIMUM LTV	MINIMUM RESIDUAL INCOME
Alt-A - Primary	90%	\$2,500
Non-Prime – Primary	85%	\$1,250
Alt-A - Primary – DTI > 50%	80%	\$3,500
Alt-A – Second (Standard Doc)	80%	\$2,500
Alt-A – Second (Alt Doc)	80%	\$2,500
Non-Prime – Second	80%	\$2,500

### 5.3.4 - DOCUMENTATION OPTIONS (04/25/2022)

Standard and Alt Doc income documentation options are available. In addition to wage/salary income, Standard documentation includes various other types of income. See [5.3.5.4 - Other Sources of Income](#) for documentation requirements. Income should be calculated and documented according to Solve guidelines. If a specific source of income is not referenced in the Solve Guide, the Fannie Mae® guidelines for that income source may be used.

#### 5.3.4.1 - IRS FORM 4506-C

A signed copy of IRS Form 4506-C is required in every standard documentation credit file. See specific income documentation type if transcripts are required.

If the transcript request is returned with a code 10, or the borrower is a victim of taxpayer identification theft, the following must be provided to validate income:

- A copy of the IRS rejection with a code of “Unable to Process” or “Limitation”
- Proof of identification theft, as evidenced by one (1) of the following:
  - Proof that the identification theft was reported to and received by the IRS (IRS Form 14039).
  - A copy of the notification from the IRS alerting the taxpayer to possible identification theft.
- In addition to one (1) of the documents above, if applicable, a Tax Transcript showing fraudulent information.
- Record of Account from the IRS - Adjusted Gross Income and Taxable Income should match the borrower’s personal tax return (Form 1040). Validation of prior tax year’s income (The income for the current year must be in line with prior years.

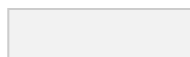
#### 5.3.4.2 - TAXPAYER FIRST ACT

The Taxpayer First Act includes a provision that persons receiving tax return information must obtain the

express permission of taxpayers prior to disclosing that tax return information to any other person. "Tax return information" is defined under the IRS Code, 26 U.S.C. § 6103.

Therefore, if a Seller or servicer obtains tax return information during the origination or servicing of a mortgage loan, the Seller or servicer must obtain express consent from the taxpayer to be able to share the tax information with another party. Such sharing would extend to actual or potential owners of the loan, such as Solve Mortgage or any other loan participant.

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To ensure compliance with the law, the Taxpayer Consent Form has been created. To comply, the Seller must include either the Solve version or their own version of the document in all loan files that include tax returns.

### 5.3.5 - STANDARD DOCUMENTATION

The Standard Income Documentation option is available to borrowers who meet the requirements listed below. This documentation option is available to borrowers who have experienced recent credit events and allows for higher LTVs for borrowers with clean payment histories.

#### 5.3.5.1 - RESTRICTIONS (08/29/2022)

- See the Solve Matrices for maximum LTV/CLTV and DTI.
- A minimum credit score of 600.

#### 5.3.5.2 - STANDARD INCOME DOCUMENTATION (24 OR 12 MONTHS) (08/29/2022)

Eligibility and pricing differences exist for the 24 or 12-month documentation options, see Loan/LTV Matrices and rate sheets for details.

#### WAGE/SALARY INCOME (08/29/2022)

- The borrower's most recent paystubs reflecting 30 days of pay and YTD earnings, along with IRS W-2 forms or W-2 transcripts covering the most recent one (1) or two (2) years depending upon documentation option selected; or
- Employment documentation provided by a 3<sup>rd</sup> party – (The Work Number®)
- When tax returns are required, as in the case of investment property ownership, the most recent one (1) or two (2) years of tax returns should be provided. The definition of "most recent" is the last return scheduled to have been filed with the IRS. Any borrower who applied for a tax return extension must provide a copy of the extension in the credit file along with the prior one (1) or two (2) years of tax returns based upon the documentation method selected.

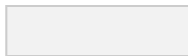
#### SELF-EMPLOYMENT INCOME (08/29/2022)

- Tax transcripts for the most recent one (1) or two (2) years. In certain cases, tax returns will be required as transcripts will not provide the detail required to establish eligible qualifying income for the borrower. Or
- The most recent one (1) or two (2) years of tax returns (including evidence of filing). If applicable, both personal and business (including all K-1s and schedules), signed and

dated by each borrower. ○ Evidence of filing may include one of the following:

- IRS Form 8879 e-File Signature Authorization for the provider that prepared the return, or
  - E-mail provided from the software used to prepare the return showing successful submission of the return to the IRS.
  - If evidence of filing is not provided, tax transcripts are required.
- If the borrower pays themselves wage income, a YTD paystub must be included in the file. • If the tax return date exceeds 90 days from the note date, a YTD Profit and Loss Statement (P&L), signed and dated by the borrower, up to and including the most recent month preceding the loan application date and two (2) business checking account statements for the two (2) most recent months reflected on the P&L. The P&L may be either: prepared by a 3<sup>rd</sup> party or prepared by the borrower. If a gap exists between the tax return ending date and the start date of the YTD P&L, a gap-year P&L is also required. The qualifying

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income is determined from the tax returns; the P&L is used to determine the stability of that income. The bank statements for the two (2) most recent months must reflect deposits that support the sales from the P&L and the qualifying income from the prior year(s) tax returns.

#### 5.3.5.3 - EMPLOYMENT STATUS (08/29/2022)

In all cases, the borrower's current employment status is required. Employment status can be established as follows: Wage/salary borrowers:

- A YTD paystub dated within 30 days of Note date, or
- A verbal VOE dated no more than 10 calendar days prior to Note date. Sellers may use any type of verification form. The VOE should include the following data:
  - Borrower name
  - Loan ID number
  - Current position
  - Verification that borrower's employment is currently active
  - Employer name/company name
  - Employer contact name and title
  - Name of individual who completed the VOE
  - Business phone number must be independently verified, or
- A verification via e-mail exchange with the borrower's current employer dated no more than 10 calendar days prior to Note date. Due diligence must be conducted to confirm the e-mail address for the employer is accurate. The VOE should include the following data:
  - Work e-mail address of the individual contacted at the employer
  - Borrower name
  - Current position
  - Current employment status

Self-Employed Borrowers:

- If the most recent tax return in the file is dated within 90-days of the note date, no additional verification required.
- If the tax return exceeds 90-days of the note date, a YTD Profit & Loss Statement (P&L) dated within 90 days of note date, along with the two most recent months of bank statements.

#### 5.3.5.4 - OTHER SOURCES OF INCOME

## ALIMONY OR CHILD SUPPORT

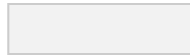
Alimony or child support income is allowed with third-party documentation evidencing receipt of at least six (6) months. Document the support will continue for at least three (3) years by one of the following:

- Copy of final divorce decree or final separation agreement describing the payment terms.
- Any other type of written legal agreement or court decree describing the payment terms.

## AUTO ALLOWANCE

The borrower must have received payments for at least two (2) years. Add the full amount of the allowance to monthly income and the full amount of the lease or financing expenditure to the monthly debt obligations.

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## CAPITAL GAINS

Capital Gains income must be averaged over two (2) years and documented with the following:

- Most recent two (2) years of personal tax returns, including an IRS Form 1040, Schedule D.
- Third-party documentation to evidence that additional assets may be sold to support the qualifying income.
- The third-party documentation must evidence the capital gain income will continue for a minimum of three (3) years.

Capital losses do not have to be considered.

## DISABILITY INCOME – LONG TERM

Generally, long-term disability will not have a defined expiration date and should be expected to continue. Obtain a copy of the borrower's disability policy or benefits statement to verify the following:

- eligibility for the benefits,
- amount and frequency of payments, current proof of receipt,
- and if there is a contractually established termination or modification date.

## EMPLOYED BY A RELATIVE

Income for borrowers who are employed by a relative must be verified using Standard Documentation for two (2) years, including the following:

- Federal income tax returns for the most recent two (2) years
- W-2s for the most recent two (2) years
- Paystub(s) covering the most recent 30-day period.

Clarification of the potential ownership of family-owned businesses by the borrowers may also be required. A borrower may be an officer of a family-operated business, but not an owner. Verification of a borrower's status should be provided by written confirmation obtained from a CPA or legal counsel.

## EMPLOYMENT OFFERS OR CONTRACTS

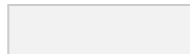
For borrower(s) starting new employment, the loan file must contain a copy of an executed offer or contract plus the first paystub. The first paystub must be dated prior to the Note date.

## FOREIGN INCOME (09/07/2021)

Foreign income is income earned by a borrower (US Citizen or Perm Resident Alien) who is employed by a foreign corporation or a foreign government and is paid in foreign currency. Borrowers may use foreign income to qualify if they provide copies of the following:

- Signed federal income tax returns or transcripts for the most recent two (2) years that include foreign income.
- Standard documentation requirements based upon the source and type of income.
- Any documents not in English or US currency must be translated.

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## FOSTER CARE INCOME (08/29/2022)

Income received from a state or county sponsored organization for providing temporary care for one or more children may be considered acceptable stable income if the following requirements are met:

- Verify the foster-care income with letters of verification from the organizations providing the income.
- Documentation verifying that the borrower has received foster care income for a minimum one-year period.
- Qualifying income is based upon the current amount received.

## HOUSING/PARSONAGE INCOME

Housing or parsonage income may be considered qualifying income if there is documentation that the income has been received for the most recent 24 months and the allowance is likely to continue for the next three (3) years. The following documentation is required:

- The two (2) most recent years of tax returns are required.
- Written documentation, such as a Written Verification of Employment (WVOE) provided by the church, must be obtained.
- The housing allowance, although not subject to federal income taxes, is subject to self-employment taxes. Gross income on Schedule SE of the borrower's IRS Form 1040 should include the housing allowance paid.

The housing allowance may be added to income but may not be used to offset the monthly housing payment.

## INTEREST/DIVIDENDS

Verify the borrower's ownership of the assets on which the interest or dividend income was earned. Documentation of asset ownership must be in compliance with the 4.2.0 - Age of Document Requirements section.

- Document a two-year history of the income, as verified by copies of the borrower's federal income tax returns.
- Develop an average of the income received for the most recent two (2) years.
- Subtract any assets used for down payment or closing costs from the borrower's total assets before calculating expected future interest or dividend income.

## NON-TAXABLE INCOME (12/13/2021)

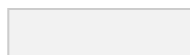
If the income is verified to be nontaxable, and the income and its tax-exempt status are likely to continue, the seller may develop an "adjusted gross income" for the borrower by adding an amount equivalent to 25% of the nontaxable income to the borrower's income.

## NOTES RECEIVABLE INCOME

Note receivable income may be used for qualifying income subject to the following:

- Verify that the income can be expected to continue for a minimum of three (3) years from the date of the mortgage application.
- Obtain a copy of the Note to establish the amount and length of payment.
- Document regular receipt of income for the most recent 12 months using either cancelled checks, bank statements, or federal tax returns.
- Payments on a Note executed within the past 12 months, regardless of the duration, may not be used as stable income.

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## PENSION, RETIREMENT, ANNUITY

If retirement income is paid in the form of a distribution from a 401(k), IRA, or Keogh retirement account, determine whether the income is expected to continue for at least three (3) years after the date of the mortgage Note. In addition, the borrower must have unrestricted access to the accounts without penalty. Document regular and continued receipt of the income with the following:

- Pension/Social Security/VA
  - Award letter(s) from the organizations providing the income,
  - Two prior years 1099-R will be acceptable in lieu of award letter,
  - 30-days current proof of receipt
- 401K/Keogh/IRA
  - Account Statement(s) reflecting available balance for withdrawals.
  - Two prior years 1099-R forms,
  - One-month proof of current receipt.
  - Income will be averaged based upon withdrawals over the past 24-months.

## RENTAL INCOME (06/21/2021)

Rental income may be used for qualifying income subject to the following documentation requirements:

- 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 properties where rental income is being used to qualify and the property was acquired during or subsequent to the most recent tax filing year or the rental property was out of service for an extended period. For

commercial properties a copy of the lease or rent roll is required

- Proposed rental income from the comparable rent schedule, reflecting long term rental rates, may be used for qualifying if there is not a current lease or assignment of lease on purchase of an investment property
- 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 2 months or the time period after the lease expired
- A 25% vacancy factor must be applied to the gross rent used for qualifying. Multiply the gross rent by 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
- Application of Rental Income:
  - Primary Residence
    - The monthly qualifying rental income (as defined above) must be added to the borrower's total monthly income. (The income is not netted against the PITIA of the property.)
    - The full amount of the mortgage payment (PITIA) must be included in the borrower's total monthly obligations when calculating the debt-to-income ratio.
  - Investment Property
    - If the monthly qualifying rental income (as defined above) minus the full PITIA is positive, it must be added to the borrower's total monthly income.
    - If the monthly qualifying rental income minus PITIA is negative, the monthly net rental loss must be added to the borrower's total monthly obligations.
    - The full PITIA for the rental property is factored into the amount of the net rental income (or loss); therefore, it should not be counted as a monthly obligation.
    - The full monthly payment for the borrower's principal residence (full PITIA or monthly rent) must be counted as a monthly obligation.