SOLVE MORTGAGE™

JUMBO & NON-QM WHOLESALE LENDING

B - Exclusive Non-QM

- AA1B (Alt-A)
- NP1B (Non-Prime)
- IR1B (DSCR & No Ratio)

March 15, 2021

INTRODUCTION

This Guide offers programs for loans with features beyond the criteria established for Qualified Mortgages offered exclusively by Solve Mortgage (Solve)

This Guide establishes the minimum credit eligibility requirements, subject borrower collateral requirements, documentation and other considerations for Solve and Affiliates to underwrite, close and fund ("originate") a mortgage loan under this program.

APPROVAL

The Solve Non-QM Product is a proprietary lending product. Participation is a voluntary origination activity. Solve reserves the right to make changes to the product and this guide without prior notice. Solve may suspend the origination of this product at any time without prior notice.

All loan files are subject to this guide, the oversight and approval of the Solve Executive Management team and the Solve Chief Credit Officer.

Solve reserves the right to decline any file at any time or approve loans outside of stated guidelines without prior notice.

Origination activity must comply with all Federal, State, Local and Solve rules, regulations and guidelines.

FEES

Solve will charge the following fees to a borrower when closing a mortgage loan:

- Underwriting $1495

GUIDELINE RELIANCE

These guidelines note acceptable direction and acceptance. Guidance not specifically noted in this document should rely on Fannie Mae and Appendix Q guidelines. Any other discrepancy is at the full and complete discretion of Solve.

QUALIFYING RATES, AMORTIZATION and TERM INDEX CAPS*

Product	Qualifying Rate	Term	I/O	I/OTerm	Index		CAPS
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
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	
40 YR FIXED I/O	Note Rate	480*	120	360	NA	NA	

*Investment properties not eligible for 40-year terms.
*The ARM margin is posted on the rate sheet for each program.
*The ARM floor is equal to the margin.
In all cases, the qualifying payment is based on the amortization term.
For interest-only loans, this is the remaining term after expiration of the interest-only period.

INTEREST-ONLY RESTRICTIONS

Alt-A and Non-Prime Products	Investment Products and Properties
Primary Residence Only	Investment
Minimum FICO: 680	Minimum FICO 680
Maximum LTV/CLTV 80%	Maximum LTV/CLTV: 70%
	Maximum total loan term: 30 years

LOAN AMOUNTS

Alt-A and Non-Prime Products		Investment Products and Properties	
Minimum:	$150,000	Minimum:	$150,000
Maximum:	$3,000,000	Maximum:	$1,500,000

MINIMUM CREDIT SCORE

Alt-A	Non-Prime	Investment Products and Properties
660	620	640

INTERESTED PARTY CONTRIBUTIONS (ORIGINATOR CONCESSIONS)

Owner Occupied: Maximum contribution:

- 6% for LTVs < 80%
- 4% for LTV > 80%

Non-Owner Occupied

- May not exceed 3%

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 Originator, 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.

ESCROWS - IMPOUND ACCOUNTS

Escrow funds/impound accounts are required to be established for all loans purchased by Solve with Loan-to-Values greater than 80% or any Section 35 HPML. Escrows may be established for funds collected by the Originator, 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 mortgage) premiums, water/sewer taxes and ground rents.

SECONDARY FINANCING

Secondary financing must be institutional. Properly licensed production staff 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.

BORROWER STATEMENT OF OCCUPANCY

The borrower must acknowledge the intended purpose 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.

Underwriters must address any red flags that may indicate the property is not intended exclusively for investment purposes. Common occupancy red flags include:

- Subject property value exceeds the value of the borrower's primary residence
- The borrower is currently renting his/her primary residence
- Subject property could reasonably function as a second home

BORROWER STATEMENT OF BUSINESS PURPOSE - INVESTMENT PROPERTIES

The borrower must acknowledge that the loan is a business purpose loan by completing and signing the appropriate sections of the Borrower Certification of Business Purpose form in of this guide.

Any loan where the proceeds are used primarily for personal, family, or household purposes is considered a consumer transaction and is not eligible for the DSCR program. This includes cash-out on an investment property when loan proceeds are used for any personal use.

BORROWER CONTACT CONSENT FORM

Properly licensed production staff are required to provide accurate borrower contact information to Solve. For many borrowers, their preferred method of contact is by email, mobile phone, and text. These forms of communication require special authorization from the borrower.

Properly licensed production staff should incorporate the Solve Borrower Contact Consent Form in the borrower's closing package and include the form in the closed loan submission package to Solve.

ABILITY TO REPAY/ QUALIFIED MORTGAGE RULE

All loans subject to Regulation Z must meet the Ability-to-Repay (ATR) Rule, whether under the nonQM ATR requirements (12 C.F.R. 1026.43(c)) or under QM Safe Harbor/Rebuttable Presumption (12 C.F.R. 1026.43(e)). In some cases, loans qualifying under the Investor Solution Program may be considered subject to Regulation Z and are thus required to comply with the ATR Rule. For example, a cash-out refinance on an investment property where the proceeds are used to pay off consumer debt would be subject to Regulation Z.

Creditors are required under the general ATR standard to make a reasonable, good-faith determination before or when consummating a mortgage loan that the consumer has a reasonable ability to repay the loan. A reasonable, good-faith ATR evaluation using reliable third-party records must include the following eight ATR underwriting factors:

<u>Income or assets used to repay the loan</u>

- Employment status
- Monthly mortgage payment on the subject loan (fully indexed, fully amortizing)
- Monthly payments for any simultaneous loans secured by the subject property
- Monthly payments for property taxes, hazard insurance, HOA fees, or ground rents
- Debts (reported by a credit bureau or disclosed by the consumer), alimony, and child support obligations
- Monthly DTI or residual income
- Credit history

PREPAYMENT PENALTY - *Investment Properties 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

<u>THE FOLLOWING PREPAYMENT STRUCTURES MAY BE USED:</u>

- Six months of interest - The prepayment charge will be equal to 6 months of interest on the amount of the prepayment that exceeds 20% of the original principal balance. The charge applies to loans that pay off due to sale or refinance, or curtailments that exceed 20% of the original principal balance in a given 12- month time period.
- 3%, 4%, or 5% fixed percentage - 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.

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

PREPAYMENT PENALTY STATE RESTRICTIONS

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.
- Prepayment penalties are not allowed on loan amounts less than $260,404 in PA.
- Only declining prepayment penalty structures are allowed in MS.

ALTERNATIVE LOAN REVIEW/AUS - OWNER-OCCUPIED PROPERTIES

The file must include one of the following as evidence the borrower is not eligible for financing through a GSE or Government loan program on Standard (Full) income documentation loans:

- An AUS Findings with a “Refer” or “Approve/Ineligible” response or

- A completed Alternative Loan Review Form may be provided to verify GSE or Government program ineligibility.

LISTING SEASONING

For all cash-out refinances, properties previously listed for sale must be seasoned at least six months from the listing contract expiration date to the loan application date. For investment properties, a listing expiration of less than six months is permitted with a prepayment penalty.

LOAN DOCUMENTATION

The current version of the Uniform Residential Loan Application (URLA) should be used. The current mandatory usage date for the revised URLA is March 1, 2021. All loan applications taken on or after that date should use the new form.

Solve will provide all security instruments, notes, riders/addenda, and special purpose documents to be used for owner-occupied or investment property loan documentation.

For business purpose loans (Investment Property Only), Solve offers a business purpose document set consisting of: Note, Loan Agreement, Personal Guaranty, and Prepayment Rider.

INTEREST CREDIT

Loans closed within the first five (5) days of the month may reflect an interest credit to the borrower.

ASSUMABILITY

- Fixed Rate Notes are not assumable.
- Adjustable-Rate Notes might be assumable depending on the note. In general, Fannie Mae Notes contain an assumable clause. In any case, the wording in the Note and Closing Disclosure must match.

EXCEPTIONS

Exceptions to published guidelines are considered on a case-by-case basis. Loans with an exception request should demonstrate strong compensating factors. All exception requests must be submitted by the Originator to Solve by completing the required information on the Exception Request screen in Solve Rates. Solve's decision to grant or deny any exception request reside fully with Solve. The result does not bind an Originator in deciding to extend credit.

PROPERTY INSURANCE

Property insurance for loans must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. The coverage must provide for claims to be settled on a replacement cost basis. Extended coverage must include, at a minimum: wind, civil commotion (including riots), smoke, hail, and damage caused by aircraft, vehicle, or explosion.

Policies that limit or exclude from coverage (in whole or in part) windstorm, hurricane, hail damage, or any other perils that normally are included under an extended coverage endorsement are not acceptable. Borrowers may not obtain property insurance policies that include such limitations or exclusions unless they are able to obtain a separate policy or endorsement from another commercial insurer that provides adequate coverage for the limited or excluded peril, or from an insurance pool that the state has established to cover the limitations or exclusions.
Additional requirements apply to properties with solar panels that are leased from or owned by a third party under a power purchase agreement or other similar arrangement.

The insurance coverage should reflect one of the following:

- 100% of the insurable value of the improvements, as established by the property insurer ○ Provide explicit evidence of guaranteed replacement cost coverage, or ○ Provide a replacement cost estimator to evidence adequate dwelling coverage
- The unpaid principal balance of the mortgage, if it's at least 80% of the insurable value of the improvements on a replacement cost basis.

If it does not, then coverage that does provide the minimum required amount must be obtained.

APPRAISALS

Solve reserves the right to review all valuation reports and determine if the subject property value is supported.

Appraisers must meet all industry standards and be State Certified. State Licensed Appraisers and Trainees are not permitted. All real estate appraisals must be performed according to the Uniform Standards of Professional Appraisal Practice (USPAP) and Fannie Mae guidelines, including Universal Appraisal Dataset (UAD) requirements. Appraisal assignments must be obtained in a manner that maintains appraiser independence and does not unduly influence the appraiser to meet predetermined value. Solve reserves the right to restrict the use of any specific appraiser and/or appraisal management company at its discretion.

Properly licensed production staff are responsible for reviewing the appraisal report for accuracy, completeness, and its assessment of the marketability of the subject property. The Originator needs to determine that the subject property provides acceptable collateral for the loan.

The age and price of the subject property should fall within the age and price range of properties in the subject neighborhood. Comparable properties should be selected from the same neighborhood when possible. Selection of a comparable outside the subject neighborhood should be addressed within the report. For condominiums, at least one comparable should be from outside the subject project. Ideally, comparable sales should be within six months of the report date. Older comparable sales that are the best indicator of value should be addressed in comments by the appraiser.

A Full Interior/Exterior appraisal report, including color photographs, requires use of one of the following forms depending on the property type:

- Uniform Residential Appraisal Report - Fannie Mae/Freddie Mac Forms 1004/70
- Small Residential Income Property Report - Fannie Mae/Freddie Mac Forms 1025/72
- Individual Condominium Unit Appraisal Report - Fannie Mae/Freddie Mac Forms 1073/465
- Appraisal Update and/or Completion Report - Fannie Mae/Freddie Mac Forms 1004D/442
- Single Family Comparable Rent Schedule - Fannie Mae/Freddie Mac Forms 1007/1000

Properly licensed production staff must order appraisals using one of two processes. The appraisal must either be ordered through your designated Solve Appraisal Management Company (AMC) that complies with Appraiser Independence Requirements (AIR). The licensed appraiser is required to perform an interior inspection when completing the appraisal report.
The appraisal should be dated no more than 120 days prior to the Note date, after 120 days, a new appraisal report is required.

Not eligible for Solve purchase: Properties for which the appraisal indicates condition ratings of C5 or C6, or a quality rating of Q6, as determined under the Uniform Appraisal Dataset (UAD) guidelines. Solve will consider purchase if the issue has been corrected prior to loan funding and with proper documentation.

SECOND APPRAISAL

A second appraisal is required when any of the following conditions exist:

- The loan balance exceeds $1,500,000.
- The transaction is a flip as defined in the Property Flipping section of this guide.
- As required under the Appraisal Review Products section of this guide.
- At the discretion of Solve Chief Credit Officer.

When a second appraisal is provided, the transaction's "Appraised Value" will be the lower of the two appraisals.

The second appraisal must be from a different company and appraiser than the first appraisal.

NEIGHBORHOOD ANALYSIS:

- Neighborhood boundaries should be described using the four (4) cardinal directions, streets, waterways, other geographic features and natural boundaries that define the separation of one neighborhood from another.
- Neighborhood characteristics should be described with types and sizes of structures, architectural styles, current land uses, site sizes, and street patterns or designs.
- Factors that affect value and marketability should be mentioned in as much detail as possible - e.g., proximity of the property to employment and amenities, public transit, employment stability, market history, and environmental considerations.

EXISTING CONSTRUCTION:

If the appraiser reports the existence of minor conditions or deferred maintenance items that do not affect the safety, soundness, or structural integrity of the property, the appraiser may complete the appraisal "as is." These items must be reflected in the appraiser's opinion of value.

When there are incomplete items or conditions that do affect the safety, soundness, or structural integrity of the property, the property must be appraised subject to completion of the specific alterations or repairs. These items can include a partially completed addition or renovation, or physical deficiencies that could affect the safety, soundness, or structural integrity of the improvements, including but not limited to, cracks or settlement in the foundation, water seepage, active roof leaks, curled or cupped roof shingles, or inadequate electrical service or plumbing fixtures. In such cases, the Originator must obtain a certificate of completion from the appraiser before the mortgage is closed.

SUBJECT SECTION

The appraiser is required to research and identify whether the subject property is currently for sale or if it has been offered for sale in the 12 months prior to the effective date of the appraisal. If the answer is 'No,' the data source(s) used must be provided. If the answer is 'Yes,' the appraiser must report on each occurrence or listing and provide the following information:

- Offering price(s)
- Offering date(s)
- Data source(s) used
- For example, if the subject property is currently listed for sale and was previously listed eight months ago, the appraiser must report both offerings.

ACTUAL AND EFFECTIVE AGES

There is no restriction on the actual age of the dwelling. Older dwellings that meet general requirements are acceptable. Improvements for all properties must be of the quality and condition that will be acceptable to typical purchasers in the subject neighborhood. The relationship between the actual and effective ages of the property is a good indication of its condition. A property that has been well-maintained generally will have an effective age somewhat lower than its actual age. On the other hand, a property that has an effective age higher than its actual age probably has not been wellmaintained or might have a specific physical problem. In such cases, the Originator should pay particular attention to the condition of the subject property in its review of any appraisal report. When the appraiser adjusts for the "Year Built," he or she must explain those adjustments.

ACCESSORY UNITS

Solve will purchase a one-unit property with an accessory unit. An accessory unit is typically an additional living area independent of the primary dwelling unit and includes a fully functioning kitchen and bathroom. Some examples may include a living area over a garage and basement units. Whether a property is defined as a one-unit property with an accessory unit or a two-unit property will be based on the characteristics of the property, which may include, but are not limited to, the existence of separate utilities, a unique postal address, and whether the unit is rented. The appraiser is required to provide a description of the accessory unit and analyze any effect it has on the value or marketability of the subject property.

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

- The property is defined as a one-unit property.
- There is only one accessory unit on the property; multiple accessory units are not permitted.
- The appraisal report demonstrates that the improvements are typical for the market through an analysis of at least one comparable property with the same use.
- The borrower qualifies for the mortgage without considering any rental income from the accessory unit.

OUTBUILDINGS

Descriptions of the outbuildings should be reported in the Improvements and Sales Comparison Approach sections of the appraisal report form. The appraiser must demonstrate, using comparable sales with similar amenities, that the improvements are typical of the residential properties in the subject area for which an active, viable residential market exists.

Minimal outbuildings, such as small barns or stables, that have relatively insignificant value in relation to the total appraised value of the subject property, the appraiser must demonstrate, using comparable sales with similar amenities, that the improvements are typical of the residential properties in the subject area for which an active, viable residential market exists.

An atypical minimal building is where the property is acceptable provided the appraiser's analysis reflects little or no contributory value for it.

Significant outbuildings, such as silos, large barns, storage areas, or facilities for farm-type animals may indicate that the property is agricultural in nature, Solve will approve whether the property is residential in nature, regardless of whether the appraiser assigns value to the outbuildings.

TRANSFER OF APPRAISAL

At Solve's discretion, transferred appraisals from another lender may be acceptable if accompanied by a copy of the Appraisal Independence Requirements (AIR) Lender Acknowledgement issued to the lender who ordered the appraisal.

APPRAISAL REVIEWS PRODUCTS

An appraisal review product is required on every loan file unless a second appraisal is obtained. All files need a CU score and an appraisal review product:

An enhanced desk review product from one of the following choices:

- CDA from Clear Capital
- A field review or a second appraisal is acceptable. These may not be from the same appraiser or appraisal company as the original report.

If the enhanced desk review product (ARR, CDA, or ARA) reflects a value more than 10% below the appraised value or cannot provide validation, the next option would be either a field review or a second appraisal. These must be from a different appraisal company and appraiser than the original appraisal.

MINIMUM SQUARE FOOTAGE

- Single Family 700 sq. ft.
- Condominium 500 sq. ft.
- 2-4 Units 400 sq. ft per individual unit

PROPERTY REQUIREMENTS

- Be improved real property.
- Be accessible and available for year-round residential use.
- Contain a full kitchen and a bathroom.
- Represent the highest and best use of the property.
- Not contain any health or safety issues.

Any personal property transferred with a real property sale must be deemed to have zero transfer value, as indicated by the sales contract and the appraisal. If any value is associated with the personal property, the sales price and appraised value must be reduced by the personal property value for purposes of calculating the LTV/CLTV.

ESCROW HOLDBACKS ARE NOT ALLOWED
Any repair or maintenance required by the appraiser must be completed prior to loan purchase. Solve will not acquire any loan with an escrow hold back. If the trend of property values is downward, a "Declining Market" exists. This requires a 5% LTV reduction from the regular LTV matrix for LTVs greater than 70%.

ELIGIBLE PROPERTY TYPES

- Single Family Detached
- Single Family Attached
- 2-4 Unit properties
- Fannie Mae warrantable condos
- Modular homes
- Properties of 10 acres or less
- Leaseholds (in areas where leaseholds are common)

INELIGIBLE PROPERTY TYPES

- Mixed-Use properties
- Vacant land or land development properties
- Properties not readily accessible by roads that meet local standards
- Properties not suitable for year-round occupancy, regardless of location
- Agricultural properties (including farms, ranches, or orchards)
- Manufactured or Mobile homes
- Condo-hotels or co-op/timeshare hotels
- Projects that include registration services and offer rentals of units on a daily, weekly, or monthly basis
- Cooperative share loans
- Boarding houses or bed/breakfast properties
- Properties with zoning violations
- Dome or geodesic homes
- Assisted living facilities

- Homes on Native American Land (Reservations)
- Log homes
- Hawaii properties located in lava zones 1 and/or 2
- Houseboats
- Fractional ownership
- Properties used for the cultivation, distribution, manufacture or sale of marijuana
- Rural property:
  - A property is classified as rural if:
    - The appraiser indicates in the neighborhood section of the report a rural location; or
    - Any two (2) of the following conditions exist:
      - The property is located on a gravel road.
      - Two of the three comparable properties are more than 5 miles from the subject property.

ACREAGE LIMITATIONS

- A maximum of 10 acres

- No truncating allowed

PROPERTY FLIPPING

A property is considered a "flip" if either of the following are true:

- The price in the borrower's purchase agreement exceeds the property Originator's acquisition price by more than 10% if the property Originator acquired the property 90 or fewer days prior to the date of the borrower's purchase agreement, or
- The price in the borrower's purchase agreement exceeds the property Originator's acquisition price by more than 20% if the property Originator acquired the property 91-180 days prior to the date of the borrower's purchase agreement.

If the property is a "flip" as defined above, the following additional requirements apply:

<u>A SECOND APPRAISAL MUST BE OBTAINED IF:</u>

- If the loan is subject to Regulation Z, a copy of the second appraisal must be provided to the borrower in compliance with the federal HPML requirements.
- The second appraisal must be dated prior to the loan consummation/note date.
- The property Originator on the purchase contract must be the owner of record.
- Increases in value should be documented with commentary from the appraiser and recent comparable sales.
- Sufficient documentation to validate actual cost to construct or renovate (e.g., purchase contracts, plans and specifications, receipts, invoices, lien waivers, etc.) must be provided, if applicable.

TITLE VESTING AND OWNERSHIP

Ownership must be fee simple title.
Title must be in the borrower's name (Owner-occupied property) at the time of application for refinance transactions.

<u>ELIGIBLE FORMS OF VESTING</u>

- Individuals
- Joint Tenants
- Tenants in Common
- Inter vivos revocable trust

<u>INELIGIBLE FORMS OF VESTING</u>

- 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 requirements should be followed to the extent this section is silent.

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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) or
- An institutional trustee that customarily performs trust functions in and is authorized to act as trustee under the laws of, the applicable state.

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

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 must be provided by all members of the entity.
  Each Entity member providing a personal guaranty must complete a Form 1003 or similar credit application indicating clearly that such document is being provided in the capacity of guarantor. The application of each member providing a personal guaranty and their credit score, and creditworthiness will also be used to determine qualification and pricing.

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- Mortgage Loan Officers shall NOT 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.
- Each member of the Entity must receive notice of the loan and its terms prior to closing.

THE FOLLOWING ENTITY DOCUMENTATION MUST BE PROVIDED:

- *Limited Liability Company* ○ Entity Articles of Organization, Partnership, and Operating Agreements, if any ○ Tax Identification Number (Employer Identification Number - EIN) ○ Certificate of Good Standing
  - Certificate of Authorization for the person executing all documents on behalf of the Entity ○ Borrowing Certificate (LLC Borrowing Certificate - Single Member or LLC Borrowing Certificate - Multiple Member)

- *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 ○ Each individual who is providing a personal guaranty.

- The guaranty should be executed at loan closing and dated the same date as the Note. ○ Spousal Consent to Pledge (Required for all loan amounts of $1,000,000 or greater) ○ 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 (GFE, TIL, Notice of Intent to Proceed, Servicing Disclosure, etc.) ○ Any state or federally required settlement statement ○ Note, Deed of Trust/Mortgage, and all Riders

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

LEASEHOLD PROPERTIES

In areas where leasehold estates are commonly accepted and documented via the Appraisal, loans secured by leasehold estates are eligible for purchase. The mortgage must be secured by the property improvements and the borrower's leasehold interest in the land. The leasehold estate and any improvements must constitute real property, be subject to the mortgage lien, and be insured by the Originator's title policy.

The Originator must provide documentation and leaseholds must meet all Fannie Mae eligibility requirements (i.e., term of lease).

TITLE POLICY REQUIREMENTS

Each loan delivered to Solve must include a title insurance policy. If the file contains the Commitment for Title Insurance, it must indicate the policy will be issued upon payment of the premium. By delivering a mortgage loan to Solve, the Originator represents and warrants that the loan is covered by the required title policy, issued by a licensed insurer, and includes any required endorsements. The title insurer and policy must conform to Fannie Mae requirements.

The title insurance policy must ensure the title is acceptable and that the mortgage represents a first lien on a fee simple or leasehold estate in the property. The title policy must also list all other liens and reflect they are subordinate. The policy must be written on one of the following forms:

- The 2006 American Land Title Association (ALTA) standard form.
- An ALTA short form if it provides coverage equivalent to the 2006 ALTA standard form.
- In states in which standard ATLA forms of coverage are, by law or regulation, not used, the state- promulgated standard or short form which provides the same coverage as the equivalent ALTA form.
- For Adjustable Rate Mortgages, the policy must include ALTA Endorsement 6-06.
- Texas Section 50(a)(6) - Requires a Mortgagee Policy of Title Insurance (Form T-2), supplemented by an Equity Loan Mortgage Endorsement (Form T-42) including the optional coverage provided by Paragraph 2(f) and a Supplemental Coverage Equity Loan Mortgage Endorsement (Form T-42.1).

The effective date of the title insurance coverage written on forms that do not provide the gap coverage included in the 2006 ALTA policies may be no earlier than the later of the date of the final disbursement of loan proceeds or the date the mortgage was recorded.

Because the 2006 ALTA forms provide protection for the time between loan closing and recordation of the mortgage, policies written on those forms may be effective as of loan closing.

The amount of title insurance coverage must at least equal the original principal amount of the mortgage.

The title insurance coverage must include an environmental protection lien endorsement (ALTA Endorsement 8.1-06 or equivalent state form providing the required coverage).

References are to the ALTA 2006 form of endorsement, but state forms may be used in states in which standard ALTA forms of coverage are, by law or regulation, not used, provided that those endorsements do not materially impair the protection to Solve. As an alternative to endorsements, the requisite protections may be incorporated into the policy.

Title policies may not include the creditors' rights exclusion language that ALTA adopted in 1990.

All files must contain a 24-month title history. Transfer date, price, and buyer and Originator names should be provided for any transfers that occurred within the past 24 months.

The title insurance policy for a condominium or PUD unit mortgage must describe all components of the unit estate.

For condominium unit mortgages, an ALTA 4-06 or 4.1-06 endorsement or its equivalent is required. For PUD unit mortgages, an ALTA 5-06 or 5.1-06 endorsement or its equivalent is required. These endorsements must be attached to each policy or incorporated into the text of the policy.

If the unit owners own the common areas of the project as tenants in common, the policy for each unit's mortgage must reflect that ownership.

If the homeowners' association (HOA) owns the common elements, areas, or facilities of the project separately (or holds them in a leasehold estate), the title insurance on those areas must insure that ownership.

This title policy must show that title to the common elements, areas, or facilities is free and clear of any objectionable liens and encumbrances, including any statutory or mechanic's liens for labor or materials related to improvements on the common areas that began before the title policy was issued.

The title policy must protect Solve and/or an end investor by insuring:

- The mortgage is superior to any lien for unpaid common expense assessments. (In jurisdictions that give these assessments a limited priority over a first mortgage lien, the policy must provide assurance that those assessments have been paid through the effective date of the policy.)
- Against any impairment or loss of title of the first lien caused by any past, present, or future violations of any covenants, conditions, or restrictions of the master deed for the project. (It must specifically insure against any loss that results from a violation that existed as of the date of the policy.)

- The unit does not encroach on another unit or on any of the common elements, areas, or facilities. (The policy also must insure that there is no encroachment on the unit by another unit or by any of the common elements, areas, or facilities.)
- The mortgage loan is secured by a unit in a condominium project that has been created in compliance with the applicable enabling statutes.
- The real estate taxes are assessable and lienable only against the individual condominium unit and its undivided interest in the common elements, rather than against the project as a whole.
- The owner of a PUD unit is a member of the homeowners' association and that the membership is transferable if the unit is sold.

Solve will not approve a mortgage secured by property that has an unacceptable title impediment, particularly unpaid real estate taxes and survey exceptions.

If surveys are not commonly required in particular jurisdictions, the Originator must provide an ALTA 9 Endorsement. If it is not customary in a particular area to supply either the survey or an endorsement, the title policy must not have a survey exception.

Title for a property that secures a conventional mortgage is acceptable even though it may be subject to the following conditions, which Solve considers minor impediments:

- Customary public utility subsurface easements that were in place and completely covered when the mortgage was originated, as long as they do not extend under any buildings or other improvements.
- Above-surface public utility easements that extend along one or more of the property lines for distribution purposes or along the rear property line for drainage purposes, as long as they do not extend more than 12 feet from the property lines and do not interfere with any of the buildings or improvements or with the use of the property itself.
- Mutual easement agreements that establish joint driveways or party walls constructed on the security property and on an adjoining property, as long as all future owners have unlimited and unrestricted use of them.
- Restrictive covenants and conditions, and cost, minimum dwelling size, or set back restrictions, as long as their violation will not result in a forfeiture or reversion of title or a lien of any kind for damages or have an adverse effect on the fair market value of the property.
- Encroachments of one (1) foot or less on adjoining property by eaves or other overhanging projections or by driveways, as long as there is at least a 10-foot clearance between the buildings on the security property and the property line affected by the encroachment.
- Encroachments on adjoining properties, as long as those encroachments consist only of hedges or removable fences.
- Outstanding oil, water, or mineral rights that are customarily waived by other Properly licensed production staff, as long as they do not materially alter the contour of the property or impair its value or usefulness for its intended purposes.
- Variations between the appraisal report and the records of possession regarding the length of the property lines, as long as the variations do not interfere with the current use of the improvements and are within an acceptable range. (For front property lines, a 2% variation is acceptable; for all other property lines, 5% is acceptable.)
- Rights of lawful parties in possession, as long as such rights do not include the right of first refusal to purchase the property. (No rights of parties in possession, including the term of a tenant’s lease, may have a duration of more than two years.)

- Minor discrepancies in the description of the area, as long as the Originator provides a survey and affirmative title insurance against all loss or damage resulting from the discrepancies.

TEXAS PROPERTIES

TEXAS PURCHASE TRANSACTIONS
Properly licensed production staff are eligible to originate purchase transaction loans that meet standard eligibility criteria set by Solve.

TEXAS RATE & TERM TRANSACTIONS
This is defined as the borrower does not receive cash-in-hand at closing. All properly licensed production staff are eligible to originate transactions to Solve provided the loan meets standard eligibility criteria, all the necessary disclosures are provided to the borrower(s), existing loans meet the seasoning requirements, and rescission time periods are followed per the Texas Constitution.

TEXAS HOME EQUITY LOAN – 50(a)(6) GENERAL REQUIREMENTS
A Texas Section 50(a)(6) mortgage is a home equity loan originated under the provisions of Article XVI, Section 50(a)(6), of the Texas Constitution, which allow a borrower to take equity out of a homestead property under certain conditions. All loans must comply with the requirements listed in the Texas Constitution. Properly licensed production staff should not rely on Solve categorization of refinance loans for purposes of determining whether compliance with the provisions of Texas Constitution Section 50(a)(6) is required. Properly licensed production staff should consult with counsel to determine the applicability of Texas Constitution Section 50(a)(6) to a specific transaction.

An attorney familiar with the provisions of Section 50(a)(6), Article XVI of the Texas Constitution was consulted (or will be consulted prior to origination of the Texas Section 50(a)(6) mortgages) in connection with the development and implementation of the processes and procedures used for the origination of the Texas Section 50(a)(6) mortgages. Solve will refer all Texas loans to approved legal counsel for eligibility under Texas statues and will retain a list of approved counsel. All Texas loans must be approved prior to loans closing and funding. No exceptions to legal review will be granted.

All Texas Section 50(a)(6) mortgages were (or will be) originated pursuant to written processes and procedures that comply with the provisions of the Texas Constitution applicable to mortgage loans authorized by Section 50(a)(6), Article XVI of the Texas Constitution, as periodically amended. Solve has in place a specific process for the receipt, handling, and monitoring of notices from borrowers that failed to comply with the provisions of the law applicable to Texas Section 50(a)(6) mortgages.

TEXAS HOME EQUITY LOAN – 50(a)(6) PRODUCTS
- 30-year Fixed
- 5/6 ARM
- 7/6 ARM
- Interest-Only are not allowed.
- Standard Documentation and Alt Doc are allowed
- Maximum LTV/CLTV is 80%
- Single-unit properties only
- Primary residences only

OCCUPANCY

- All borrowers must be on title
- All borrowers must occupy the subject property as their primary residence.

BORROWERS

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

- US Citizens
- Permanent Resident Aliens
- Non-Permanent Resident Aliens
- Inter Vivos Revocable Trust (must meet Solve and Texas Constitution section 50(a)(6) requirements)

The following borrowers are not allowed:

- Co-signer(s)

NON-BORROWING SPOUSE

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

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

- Notice Concerning Extension of Credit
- Security Instrument (including any Riders)
- Federal Truth-in-Lending (TIL) Disclosure Statement
- Right of Rescission Notice
- Discount Point Disclosure
- Acknowledgment of Fair Market Value
- Premium Pricing Disclosure
- All owners must sign the application and the Notice Concerning Equity Loan Extension of Credit. The signing of both documents starts the 12-day cooling off period.
- Notice of Presentment of Closing Disclosure one (1) day before closing
- Texas Home Equity Affidavit and Agreement
- Owner’s Affidavit of Compliance
- Receipt of Copies of Documents
- Certificate of Non-Cancellation of Loan.

12-DAY COOLING OFF PERIOD

The loan may not be closed until at least 12 calendar days after the later of the date the borrower signed the initial application or the date the Notice Concerning Equity Loan Extension of Credit has been provided.

PAYOFF OF DEBT

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

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

SECONDARY FINANCING

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

- Second lien must be re-subordinated.
- Maximum 80% CLTV.
- Second lien may not be a HELOC or a reverse mortgage.

PROPERTY CHARACTERISTICS

All properties must be residential in nature. Farms, ranches, or any properties used for agricultural purposes are not allowed.

Tax certification and exemptions for the property are to be reviewed and must meet the following requirements:

- The property must be the borrower's principal residence, defined as homestead in the state of Texas.
- All separate structures must be included in the homestead exemption.
- Only the parcel designated as the homestead parcel may secure the loan (the property might have to be surveyed prior to the appraisal being ordered).
- The homestead parcel, as identified on the county appraisal district records, must include ingress/egress to a properly identified public road.
- The new lien may only be secured by the homestead parcel and the market value for LTV calculation can only be assessed on that parcel.

URBAN AND RURAL HOMESTEAD

The definition of a Texas Homestead should be used. The maximum acreage requirements for Solve programs apply.

CLOSING REQUIREMENTS

ATTORNEY REVIEW

Current approved law firms (other attorneys may be acceptable when approved in advance by Solve):

- Black, Mann & Graham, LLP
- Sandler Law Group

CLOSING DISCLOSURE AND FINAL LOAN APPLICATION

The final Closing Disclosure (CD) and a copy of the final loan application must be delivered to/accepted by the borrower(s) during normal business hours. The Originator is responsible for ensuring all timing requirements under Regulation Z and state law are followed.

The borrower(s) must sign the Acknowledgment of Itemization of Fees, Points, Interest, Costs and Charges for Texas Home Equity Loan or Line of Credit to evidence their receipt of the final CD and loan application at least one day prior to closing.

POINTS AND FEES

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

- Appraisal performed by a third-party appraiser.
- Survey by a state registered or licensed surveyor.
- Title Insurance premiums with endorsements or title examination report.
- Discount points used to reduce the interest rate.

If the borrower(s) is paying discount points, the borrower(s), owner(s)-in-title and/or spouse must execute the Texas Home Equity Discount Point Acknowledgment. Only fees that are allowed by State Law and RESPA/ECOA regulatory guidelines can be charged to the borrower(s) and MUST be accurate and reflected on the Loan Estimate (LE) and the Closing Disclosure (CD).

POWER OF ATTORNEY Power of Attorney is not allowed.

SURVEY

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

- Accurate parcel size, within the permissible acreage.
- The homestead property and any adjacent land are separate.
- The homestead property is a separately platted and subdivided lot for which full ingress and egress are available.
- The property is served by municipal utilities, and fire and police protection.

TITLE

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

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

Title may ***not*** include language that:

- Excludes coverage for a title defect resulting from the determination that financed origination expenses are not “reasonable costs necessary to refinance.”
- Defines the “reasonable costs necessary to refinance” requirement as a “consumer credit protection” law, since the standard title policy excludes coverage when lien validity is questioned due to a failure to comply with consumer credit protection laws.

Loans must be closed in a Texas title company’s office or attorney’s office. Mobile notaries are not permitted.

TEXAS 50(a)(6) HOME EQUITY DOCUMENTS

The following Texas Home Equity specific documents must be included in the credit file:

- Notice Concerning Extension of Credit Defined by Section 50(a)(6) (signed by each owner of the property and each spouse of an owner)
- Acknowledgment of Fair Market Value of Homestead Property (borrower and Originator must sign at closing with an appraisal attached to the Acknowledgment)
- Notice of Right to Cancel (signed by each owner of the property and each spouse of an owner)
- Texas Home Equity Security Instrument (Fannie Mae Form 3044.1)
- Texas Home Equity Note Fixed-Rate (Fannie Mae Form 3244.1), if applicable
- Texas Home Equity Fixed/Adjustable Rate Note (Fannie Mae Form 3528.44), if applicable
- Texas Home Equity Fixed/Adjustable Rate Rider (Fannie Mae Form 3187.44), if applicable
- Texas Home Equity Affidavit and Agreement (Fannie Mae Form 3185)
- Texas Home Equity Condominium Rider (Fannie Mae Form 3140.44), if applicable
- Texas Home Equity Planned Urban Development (PUD) Rider, (Fannie Mae Form 3150.44), if applicable
- Texas Home Equity Certificate from Originating Originator Regarding Compliance with Section 50(a)(6), Article XVI of the Texas Constitution, signed by the Originator's attorney
- Texas Home Equity Discount Point Acknowledgment, if applicable
- Affidavit of Non-Homestead for all other dwellings, if borrower owns more than one
- Detailed closing instruction letter acknowledged by the title company (Compliance Requirements for Texas Home Equity Loans)
- The Note for any re-subordinating second (cannot be an (a)(6) Note, a new loan, or a HELOC) with subordination agreement, if applicable

REFINANCE OF AN EXISTING TEXAS SECTION 50(A)(6) LOAN (LIMITED ELIGIBILITY)

A seasoned Texas Section 50(a)(6) loan can be refinanced into a non-Texas Section 50(a)(6) loan if certain conditions are met. A Non-Texas Section 50(a)(6) loan is eligible for purchase provided the loan meets standard eligibility criteria and the requirements of the Texas Constitution, including:

- The refinanced loan is created at least a year after the initial Texas Equity 50(a)(6) loan was closed.
- The loan amount only covers the actual cost of the refinancing and does not provide the borrower with additional funds.
- The LTV/CLTV does not exceed 80% of the fair market value.
- The Originator provides the borrower with the required refinance disclosure within three (3) business days of application and 12 or more days before the loan is closed.
- An affidavit executed by the borrower acknowledging that the requirements of Subsection (f)(2) of Article XVI of the Texas Constitution have been met.

LIMITATIONS ON FINANCED PROPERTIES

- A maximum of 20 financed properties including subject loan may be presented for Solve loan purchase.
- Commercial or multi-family (5+ units) property does not apply to the cap of 20 financed properties.
- Solve' exposure to a single borrower shall not exceed $5,000,000 in current unpaid principal balance (UPB) or six (6) properties.
- All financed properties, other than the subject property, require an additional two (2) months PITIA in reserves for each property. The total reserve requirement is not to exceed 12 months.

DISASTER AREAS

Properly licensed production staff are responsible for identifying geographic areas impacted by disasters and taking appropriate steps to ensure the subject property has not been adversely affected. The following guidelines apply to properties located in FEMA declared disaster areas, as identified by reviewing the FEMA website at www.fema.gov/disasters. In addition, when there is knowledge of an adverse event occurring near and around the subject property location, such as earthquakes, floods, tornadoes, or wildfires, additional due diligence must be used to determine if the disaster guidelines should be followed.

APPRAISALS COMPLETED PRIOR TO DISASTER

An interior and exterior inspection of the subject property, performed by the original appraiser if possible, is required.

- The appraiser should provide a statement indicating if the subject property is free from any damage, is in the same condition from the previous inspection, and the marketability and value remain the same.
- An Inspection Report must include new photographs of the subject property and street view.
- Any damage must be repaired and re-inspected prior to purchase.

APPRAISALS COMPLETED AFTER DISASTER EVENT

- The appraiser must comment on the adverse event and certify that there has been no change in the valuation.
- Any existing damage noted in the original report must be repaired and re-inspected prior to purchase.

DISASTER EVENT OCCURS AFTER CLOSING BUT PRIOR TO LOAN PURCHASE

A loan is ineligible for purchase until an inspection is obtained using one of the following options:

- A Post Disaster Inspection (PDI) Report from Clear Capital or Damage Assessment Report (DAR) from Pro Teck may be used. Any indication of damage reflected on the report will require a re-inspection by the appraiser.

- The appraiser may perform an inspection (Fannie Mae Form 1004D) and comment on the event and certify that there has been no change to the value.

The guidelines for disaster areas should be followed for 90 days from the disaster period end-date or the date of the event, whichever is later.

CONDOMINIUMS

Fannie Mae warrantable projects and non-warrantable projects are eligible, subject to the following:

The Originator may submit a request for Solve to complete a project eligibility review for warrantable projects.

- All non-warrantable projects must be submitted to Solve for review.
- Project has been created and exists in full compliance with applicable local jurisdiction, State, and all other applicable laws and regulations.
- Project meets all Fannie Mae insurance requirements for property, liability, and fidelity coverage.
- Borrower must carry HO-6 coverage for replacement of such items as flooring, wall covering, cabinets, fixtures, built-ins, and any improvements made to the unit.
- Originator must confirm that the project documents do not give a unit owner or any other party priority over the rights of the first mortgagee.

Projects that are Fannie Mae Warrantable may be reviewed and approved by Solve. A Representation and Warranty certification from a senior Solve Underwriter stating that the project meets the requirements of a Fannie Mae Warrantable Project, such as the Condominium Project Warranty Certification, must be provided with the loan package to avoid a Solve project review and associated expense.

INELIGIBLE PROJECTS

- A project subject to the rules and regulations of the US Securities and Exchange Commission.
- Condominium Hotel - Condotel
- A condominium project in which any unit owner or the homeowners' association is a party to a revenue- sharing agreement with either the developer or another third-party entity.
    - A condominium project where the unit is not the lessee's residence.
    - Projects that are managed and operated as a hotel or motel, even though the units are individually owned.
    - Projects with names that include the words "hotel," "motel," "resort," or "lodge." o A project that includes registration services and offers rentals of units on a daily, weekly, or monthly basis.
    - Hotel or motel conversions (or conversions of other similar transient properties.)
- Resort type of project.
- Timeshare or projects that restrict the owner's ability to occupy the unit.
- A new condo conversion completed less than 2 years ago.
- Houseboat project.
- Manufactured home projects.

- Assisted living facilities or any project where the unit owner's contract includes a lifetime commitment from the facility to care for the unit owner regardless of future health or housing needs.
- Any project in which a single entity owns more than 25% of the total number of units. In projects that have 5-19 units, one owner can own a maximum of two units.
- Multi-family units where a single deed conveys ownership of more than one, or all of the units.
- A project in which more than 50% of the total square footage in the project, or in the building that the project is located in, is used for non-residential purposes.
- A common-interest apartment ○ A project in which individuals have an undivided interest in a residential apartment building and land and have the right of exclusive occupancy of a specific apartment unit in the building.
    - The project or building is often owned by several owners as tenants-in-common or by a homeowners' association.
- Fragmented or segmented ownership ○ Ownership is limited to a specific period on a recurring basis (i.e., timeshare).
- Any project where the developer (or its affiliates) owns the Common and/or Limited Elements and leases the elements back to the HOA.
- Any project that has non-conforming zoning (can't be rebuilt to current density).
- Project units sold with excessive Seller contributions that may affect the value of the subject property.
- Any project that requires Private Transfer Fees as a part of the transaction, and those fees do not benefit the association.
- Any project in litigation, arbitration, mediation, or other dispute regarding safety, soundness or habitability.
- Any project with adverse environmental issue(s) involving safety, soundness or habitability.
- Projects that are not well-managed or in poor physical or financial condition. This might include excessive special assessments, low reserves, or neglected repairs.

NON-WARRANTABLE PROJECTS

- A project failing to meet Fannie eligibility criteria may be considered as an eligible nonwarrantable project. One of the following characteristics within the project are permitted:
- Investor concentration up to 70%
- Commercial space up to 50%
- Single owner/entity concentration up to 25% (For projects consisting of 10-units or less, max 2units) Annual budget allocation to reserves < 10% permitted if the following:
    - The appraisal report must note no major repairs are needed, and
    - A lower annual allocation, listed below, permitted if the following reserve balance thresholds are meet:
        - 7% to 9.99% requires a reserve fund balance of 50% of the annual budget ▪ 5% to 6.99% requires a reserve fund balance of 75% of the annual budget
        - 3% to 4.99% requires a reserve fund balance of 100% if the annual budget

TRANSACTION TYPES

PURCHASE

- 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.

RATE & TERM REFINANCE

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 where 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.
- LTV/CLTV is based upon the appraised value.
- 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.

CASH-OUT REFINANCE

- Max Cash – out:
  - LTV ≥ 70% - $250,000 ○ LTV > 50% & < 70% - $500,000 ○ LTV ≤ 50% - $1,000,000
- Max LTV 65% - Condos located in FL
- Max LTV 65% - Any properties located in: CT, HI, IL, NJ, NY
- A refinance that does not meet the definition of a rate/term transaction is considered cash-out.
- 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.

- Cash-out only eligible to satisfy the reserve requirements for loans with an LTV of 65% or less.
- A letter explaining the use of loan proceeds is required for all transactions.
    - For all investment property transactions, any loan proceeds used to pay off personal debt creates a consumer transaction, and the loan is subject to ATR and TRID. This includes any past draws, regardless of timing, on a HELOC secured by the subject property. 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).
- Loans not eligible for cash-out:
    - Properties listed for sale in the past six (6) months, unless requirements in Section 2.1.18 are met.
    - There has been a prior cash-out within the past six (6) months. o Land Contract/Contract for Deed.
    - Foreign National not eligible for cash-out for any loan secured by property in FL.
- Cash-Out Seasoning is defined as the difference between application date of the new loan and the property acquisition date.
    - For properties owned 6 months or longer, the LTV/CLV is based upon the appraised value.
    - Cash-out seasoning of less than six (6) months is not allowed when the prior transaction was also a cash- out.
    - Cash-out seasoning of six (6) months or less is allowed with the following restrictions:
        - 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 cash-out transaction is based upon the lower of the current
        - appraised value or the property's purchase price plus documented improvements.
        - At least one of the following must exist:
            - No mortgage financing was used to obtain the property (including delayed financing.)
            - The original purchase transaction is documented by a settlement statement, which confirms that no mortgage financing was used to obtain the subject property. (A recorded trustee's deed or similar alternative confirming the amount paid by the grantee to trustee may be substituted for a settlement statement if a settlement statement was not provided to the purchaser at time of sale.)
            - The preliminary title search or report must confirm that there are no existing liens on the subject property, or the existing lien being refinanced was taken out after the property was obtained, as evidenced by a copy of the Note.
        - The mortgage being refinanced was used to purchase the property and has an original term of 24 months or less, as evidenced by a copy of the settlement statement and original Note.
        - If the source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC

secured by another property), the settlement statement for the refinance transaction must reflect that all cash-out proceeds be used to pay off or pay down, as applicable, the loan used to purchase the property. Any payments on the balance remaining from the original loan must be included in the debt-toincome (DTI) ratio calculation for the refinance transaction.

- The Originator 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.

NON-ARM'S LENGTH AND INTERESTED PARTY TRANSACTIONS

INTERESTED PARTY 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)).

INTERESTED PARTY TRANSACTIONS

A Conflict-Of-Interest Transaction occurs when the borrower has an affiliation or relationship with the Mortgage Broker, Loan Officer, Real Estate Broker or Agent, or any other interested party to the transaction.

In the case of the Mortgage Broker, Loan Officer, or Real Estate Broker/Agent, extra due diligence must be exercised. For example, the Originator's real estate agent for the subject property may not act as the loan officer for the borrower(s) purchasing the same subject property. An examination of the relationship among the Mortgage Broker, Title/Escrow Companies, Appraiser and any other party to the transaction must be closely examined. A Letter of Explanation regarding the relationship between the parties is required.

ELIGIBLE NON-ARM'S LENGTH AND INTERESTED PARTY TRANSACTIONS

- Buyer(s)/Borrower(s) representing themselves as agent in real estate transaction.
- Commission earned by buyer/borrower cannot be used for down payment, closing costs, or monthly PITIA reserves.
- Originator(s) representing themselves as agent in real estate transaction.
- 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.

NON-ARM'S-LENGTH AND INTERESTED PARTY RESTRICTIONS

- Primary residences only.
- Borrower to provide a cancelled check verifying the 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 Originator are not allowed.

BORROWER ELIGIBILITY- RESIDENCY

UNITED STATES CITIZEN
Eligible without guideline restrictions.

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 includes the following:
  - Alien Registration Receipt Card I-151 (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.

NON-PERMANENT RESIDENT ALIEN
An alien 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-1, 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 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 visa 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 visa renewal sponsorship. The employer on the loan application must be the same as on the unexpired visa.
- Guideline restrictions:
  - Maximum LTV/CLTV of 75%. ○ Standard Documentation (24 Months) only. ○ Non-occupant co-borrowers are not allowed. ○ Gift funds are not allowed.
  - US credit requirements detailed under the Credit section of this guide.

NON-PERMANENT RESIDENT ALIEN
A Foreign National is a non-resident alien who is not authorized to live or work in the U.S or holds a work Visa that is indicative of a more temporary residency than those required to meet Non-Permanent Resident Alien requirements. A Foreign National may periodically visit the U.S. for various reasons including vacation and/or business.

NON-OCCUPANT CO-BORROWERS

- Allowed for Standard Documentation and Alternative Documentation ("Alt doc" - i.e., bank statement documentation) loans. The maximum LTV allowed for any income documentation is 5% LTV reduction.
- Non-occupant 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.

FIRST-TIME HOME BUYERS

An individual is to be considered a first-time home buyer who
- Is purchasing the security property
- Will reside in the security property as a principal residence; and
- Had no ownership interest (sole or joint) in a residential property during the three-year period preceding the date of the purchase of the security property.

In addition, an individual who is a displaced homemaker or single parent also will be considered a firsttime 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 43%.
- Minimum six (6) months of reserves.
- 12-month rental history is required, reflecting 0x30.

Payment shock is limited as follows*: Proposed Housing Payment / Present Housing Payment) * 100*

- Credit Score >= 680
- >36% DTI: 300% current housing
- <=36 DTI: Payment shock not applicable

Originator should use prudent judgment in evaluating any payment shock implications and the ability of the borrower to repay the new mortgage loan. Payment shock exceeding acceptable limits will be reviewed case by case and must be accompanied by a documented history of saving which supports the borrower's ability to handle the increased payment.

<u>INELIGIBLE BORROWERS</u>

- 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.

CREDIT

<u>CREDIT REPORTS</u>

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.

<u>LOAN INTEGRITY AND FRAUD CHECK</u>

Data integrity is crucial to quality loan origination and mitigation of fraud risk. All parties to the transaction (Borrower(s), Originator(s), Broker, Loan Officer, and Real Estate Agent(s)) must be submitted to an automated Solve approved fraud and data check tool and clear all negative findings prior to closing.

CREDIT INQUIRIES

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. If new credit was extended, borrowers must provide documentation on the current balance and payment. If no credit was extended, borrower must state the purpose of the inquiry. Properly licensed production staff must inform borrowers that they are obligated to inform Solve 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.

HOUSING HISTORY

MORTGAGE/RENTAL VERIFICATION

A current mortgage/rental history is required for all Solve programs. Current means the borrower has made all mortgage payments due in 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 or rental history is not reported on the credit report, alternative documentation showing the most recent 12-month history (cancelled checks, mortgage/rental statements including payment history, etc.) must be provided. A VOM/VOR completed by a private-party Originator or any non-institutional lender must be supported by cancelled checks. A borrower's combined
mortgage/rental history is used for program or grade eligibility. 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.

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%
- Primary residence only
- Any available portion of a 12-month housing history must be paid as agreed.
- Borrower(s) who own their primary residence free and clear aren't 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.
- If subject property is an investment transaction, the above criterion doesn't apply.

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.

CONSUMER CREDIT

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.

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.

STUDENT LOANS

If a monthly student loan payment is provided on the credit report, the Originator may use that amount for qualifying purposes. If the credit report does not reflect the correct monthly payment, the Originator 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 Originator must determine the qualifying monthly payment. For deferred loans or loans in forbearance, the Originator 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.

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 Originator 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.

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 Originator 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.

TIMESHARES

Timeshare obligations will be treated as a consumer installment loan.

BUSINESS DEBT

A business debt is a financial obligation of a business and can be the sole responsibility of the business or be personally secured by 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.

Debts paid by the borrower's business can be excluded from the DTI ratio if the transaction **is Full Doc or Personal Bank Statements** and with any of the following supporting documentation:

- 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.

CONSUMER CREDIT CHARGE-OFFS AND COLLECTIONS

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. Evidence of expiration must be documented.

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.

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.

JUDGMENT OR LIENS

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

INCOME TAX LIENS

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 six (6) 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.

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.

BANKRUPTCY HISTORY

Recent bankruptcies are not allowed. All bankruptcies must be settled a minimum of twenty-four (24) months. Specific programs may have longer periods, see Product At-A-Glance for details. Evidence of bankruptcy resolution is required. The length of time is measured from the discharge/dismissal date to the Note date.

FORECLOSURE SEASONING

Foreclosures must be completed a minimum of twenty-four (24) months. 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.

SHORT SALE AND/OR DEED-IN-LIEU SEASONING

Short Sales and Deeds-in-Lieu of Foreclosures must be completed a minimum of twenty-four (24) months.

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.

FORBEARANCE, MODIFICATION, AND/OR DEFERRALS

Forbearance, loan modifications, or deferrals 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.

A recent forbearance, due to COVID-19, may be eligible based upon the following:

- Borrower(s) who entered into a forbearance plan but continued to make timely payments and remained employed without income disruption, are eligible without any restrictions.
- Borrower(s) who entered a forbearance plan with missed payments. Eligibility is based upon the number of payments made since the forbearance period expired and the borrower exited forbearance:
    - 3 timely payments made since exiting the plan:
        - ALT-A:
            - LTV/CLTV is limited to 75% for a purchase transaction, and 65% for any refinance.
            - 680 Min FICO
        - INVESTOR:
            - LTV/CLTV is limited to 70% for a purchase transaction, and 60% for any refinance.
            - 680 Min FICO
        - NON-PRIME: Not eligible

- 6 timely payments made since exiting the plan ▪ Non-Prime/Alt-A:
  - ➢ LTV/CLTV is limited to 85% for a purchase transaction, and 70% for any refinance.
  - ➢ 660 Min FICO ▪ INVESTOR:
  - ➢ LTV/CLTV is limited to 75% for a purchase transaction, and 65% for any refinance.
  - ➢ 660 Min FICO or Foreign Credit
- 9 timely payments made since exiting the plan
  - No restrictions
  - Payments must be documented by canceled checks or bank statements. o Any deferred/postponed payments are considered missed payments.
- Income must have been re-established at the time payments commenced and remained consistent since.

CREDIT SCORE

Loan eligibility is based upon a Decision Credit score. A valid Decision Credit score requires at least one (1) borrower to have a minimum of two (2) credit scores. Use the lower of two (2) or middle of (3) credit scores generated to determine the Decision Credit score.

For loan files with multiple borrowers:

- <u>Standard Doc:</u> If a borrower's income represents a minimum of 55% of total household income, that borrower is considered the primary borrower and their credit score can be used as the Decision Credit Score. Otherwise, use the lowest Decision Score amongst all borrowers who will be on the Note and Title.
- <u>All Other Income Documentation Options</u>: Use lowest Decision Score amongst all borrowers who will be on the Note and Title.

TRADELINES

<u>STANDARD TRADELINES</u>
For All Programs:

- 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.

The following are ***not*** acceptable to be counted as tradelines:

- "Non-traditional" credit as defined by Fannie Mae
- Collection accounts
- Liabilities in deferment status
- Foreclosures
- Accounts discharged through bankruptcy
  Deed-in-lieu of foreclosure
  Authorized user accounts
- Short sales

- Charge-offs
- Pre-foreclosure sales

OBLIGATIONS NOT APPEARING ON CREDIT REPORT

HOUSING AND MORTGAGE-RELATED OBLIGATIONS

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 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.

CURRENT DEBT OBLIGATIONS, ALIMONY, AND CHILD SUPPORT

An Originator may use a credit report to verify a borrower's current debt obligations, unless the Originator 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 Originator 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 Originator 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.

PAYMENT SHOCK (PRIMARY RESIDENCE)

Payment shock should not exceed 300% of the borrower's current housing payment unless the DTI is less than or equal to 36%. If payment shock exceeds this limit, the underwriter must provide justification of the borrower's ability to handle the increased payment. If the loan purpose is debt consolidation, and the net tangible benefit test is met, a payment shock calculation is not required. NOTE: See additional payment shock restrictions in the 1.5.3 First-Time Home Buyers section of this guide.

*Payment Shock = (Proposed Housing Payment / Present Housing Payment) * 100*

ADDITIONAL CREDIT CRITERIA

- Inquiries: Recent inquiries within 90 days of the credit report date must be explained by the borrower.

- New debt/liabilities: A verification of all new debt/liabilities must be provided, and the borrower should be qualified with the additional monthly payment.
- Gap credit: A gap credit report is required within 10 days prior to closing.

Solve reserves the right to request a newly processed credit report pre-loan closing or prior to the loan funding date to confirm that no new debt/liabilities have been added.

ASSETS

THE FOLLOWING APPLY TO ALL TRANSACTIONS UNLESS OTHERWISE STATED.

ASSET REQUIREMENTS

Sufficient funds for down payment, closing costs, and reserves are required to be documented in each credit file. The documentation must cover a minimum two-month time period. The documentation should be dated within 60 days of the loan note date.

ASSET DOCUMENTATION

In addition to documenting the down payment, closing costs, and minimum PITIA reserve requirements, all borrowers are encouraged to disclose (and the Originator must verify) all of the borrower's liquid assets. The Originator can use any of the following as asset documentation:

- Account statements (bank, credit union, brokerage, etc.) covering the most recent 60-day period.
- When bank statements are used for asset verification, the statements can be obtained from the borrower or the Originator can use a third-party asset vendor participating in Fannie Mae's "Day 1 Certainty" process. Regardless of the source of the statements, any large deposits must be evaluated. Large deposits are defined as any single deposit that represents more than 50% of the borrower's monthly income.
- Request for Verification of Deposit (Fannie Mae Form 1006).
- Stocks/bonds/mutual funds - 100% of stock accounts may be considered in the calculation of assets for closing and reserves.
- Vested retirement account funds - 60% may be considered for closing and/or reserves.
- 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 US domiciled account in the borrower's name at least 10 days prior to closing.
- Documenting assets held in foreign accounts:
    - Assets must be verified in US Dollar equivalency at the current exchange rate via either http://www.xe.com or the Wall Street Journal conversion table.
    - A copy of the two (2) most recent statements of that account are required. If the funds are not seasoned for a minimum of 60 days, a letter of explanation is required along with the information to complete a 60-day chain of funds.

The Originator ***cannot use*** any of the following as asset documentation:

Non-vested or restricted stock accounts are not eligible for use as down payment or reserves. Any assets which produce income or are used as income already included in the income calculation are not eligible for use as down payment or reserves.

BUSINESS FUNDS

The use of business assets for self-employed borrowers for down payment, reserves and closing costs are allowed.

- The borrowers on the loan must have 50% ownership of the business and must be the owners of the account. Access letters from the remaining owners of the business must be obtained as well.
- A letter from a CPA or borrower must be obtained verifying that the withdrawal of funds for the transaction will not have a negative impact on the business.
- If a CPA letter is not provided, a cash flow analysis of the business assets and liabilities (balance sheet) must be completed by the client to determine if the withdrawal of funds from the business is acceptable.

DOWN PAYMENT

Properly licensed production staff must require that the borrower state the source of the down payment and provide verification. If the Originator determines that the source of the down payment is another extension of credit, the Originator must then consider that loan as simultaneous secondary financing. Refer to the Secondary Financing section.

RESERVES

RESERVES
• LTV ≤ 85%: 6 months of PITIA
• LTV > 85%: 12 months of PITIA
• Loan Amount > 1.5M: 9 – months of PITIA
• Loan Amount > 2.5M: 12 – months of PITIA
• Cash out may not be used to satisfy requirement, unless LTV is 65% or less.

- Additional reserves - Each financed property, in addition to the subject property, will increase the applicable reserve requirement by two (2) months of PITIA on the subject property, to a maximum requirement of 12 months of reserves. (Additional reserves are based upon the PITIA of the subject property).
- Reserves must be sourced and documented as specified in the Asset Documentation section of these guidelines.
- 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.
- Borrower can use Cash Out to satisfy reserve requirements if Loan-to-Value <= 65%.

GIFT FUNDS

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

- For Owner-occupied properties a 5% down payment has been made by the borrower from their own funds.
    - 100% Gift Funds are allowed for Non-Prime and Alt-A 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.
- For Investment properties, a minimum of 10% of the down payment must be made by the borrower from their own funds.

<u>ELIGIBLE DONORS AND DOCUMENTATION</u>

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.
- 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

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 only. Must meet all other guidelines for Gift Funds.

INELIGIBLE FUNDS

The following funds are not eligible sources for down payment, closing costs, and reserves:

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

INCOME

<u>INCOME ANALYSIS</u>
THE FOLLOWING APPLY TO ALL INCOME DOCUMENTATION OPTIONS UNLESS OTHERWISE STATED IN THE SPECIFIC SECTION OF THE GUIDELINES.

<u>INCOME WORKSHEET</u>
The loan file must include a Solve approved income worksheet detailing income calculations. Income analysis for borrowers with multiple businesses must show income/loss details for each business separately, not in aggregate.

<u>EMPLOYMENT/INCOME VERIFICATION</u>

- The most recent two (2) years of income documentation is required for all income/documentation types unless otherwise noted.
- 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.

<u>STABILITY OF INCOME</u>

- 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 Originator 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 Originator 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.

EARNINGS TRENDS

When analyzing borrower earnings, year-over-year earnings trends must be incorporated into the borrower's income calculation in accordance with Appendix Q to Part 1026 of Regulation Z - Standards for Determining Monthly Debt and Income.

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 should 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 should be used.
- Declining: If the trend is declining, the income is not eligible.

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:

- 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.
- 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 Matrix for specific program restrictions.

RESIDUAL INCOME

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.
The Minimum Residual Income requirements are calculated using the table below; $250 is added for the first dependent and $125 for each additional dependent.

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

DOCUMENTATION OPTIONS

Standard and Alt Doc income documentation options are available. In addition to wage/salary income, Standard documentation includes various other types of income. See 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. The Originator income worksheet should be included and delivered as part of the credit file.

IRS FORM 4506-T

When the IRS Form 4506-T is required, it must be signed by the borrower and the transcript obtained and provided in the credit file. 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.

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 an Originator obtains tax return information during the origination of a mortgage loan, the Originator 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 or any other loan participant.

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

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.

RESTRICTIONS

- See the Solve Matrices for maximum LTV/CLTV and DTI.
- A minimum credit score of 620.
- The COVID-19 pandemic has resulted in an increase in furloughed employees. A furlough is a suspension from active employment that does not typically guarantee restoration of an employee's position when the furlough period ends. Until furloughed employees actually return to work, they are unable to provide evidence of stable and reliable employment related income.

DTI LIMITATIONS

Up to 50% Max DTI
• All Doc Types except for Asset Utilization and FTHB.
Up to 55% Max DTI
• Full Doc – 24 months • Reserves – 12 months • Max LTV/CLTV – 75% • Primary Residence Only • First Time Home Buyer not Permitted • Purchase & Rate and Term only • Residual Income: $3,500

STANDARD DOCUMENTATION (24 OR 12 MONTHS)

- Eligibility and pricing differences exist for the 24 or 12-month documentation options, see Product Matrix and rate sheets for details.
- When tax returns are required, as in the case of investment property ownership, the most recent two years of 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 two (2) years of tax returns.
- For wage or salaried borrowers, the following are required:

  - The borrower's most recent paystubs reflecting 30 days of pay and YTD earnings, along with IRS W-2 forms covering the most recent two-years or one-year time period, depending upon the option selected. Solve will also accept a completed Request for Verification of Employment (Fannie Mae Form 1005) in lieu of paystubs and W-2 forms.
  - A verbal Verification of Employment (VOE) from each employer within 5 days of the Note date. An email directly from the employer's work email address that identifies the name and title of the verifier and the borrower's name and current employment status may be used in lieu of a verbal VOE.
  - A completed, signed, and dated IRS Form 4506-T is required for each borrower. The form should be executed and the W-2 transcript(s) for the corresponding number of W-2s included in the credit file. Any discrepancies between the two (2) documents should be explained and, if necessary, additional documentation obtained to satisfy the discrepancy. If tax returns are present in the credit file, transcripts for the returns will be required.
- For self-employed borrowers, the following are required:
  - The most recent two (2) years or one (1) of tax returns, personal and business if applicable (including all schedules), based upon the option selected, signed and dated by each borrower.
  - A YTD Profit and Loss Statement (P&L), up to and including the most recent month preceding the loan application date and two business checking account statements for the two most recent months reflected on the P&L. A borrower- prepared P&L is acceptable, but it must be signed 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 income is determined from the tax returns, and the P&L is used to determine the stability of that income. The bank statements for the two most recent months must reflect deposits that support the sales from the P&L and the qualifying income from the priors' years tax returns.
  - A completed, signed, and dated IRS Form 4506-T is required for each borrower's personal tax return. The form should be executed, and the transcript(s) for the corresponding number of tax returns must be included in the credit file. The tax returns and transcripts should be compared; any discrepancies should be explained and, if necessary, additional documentation obtained to satisfy the discrepancy.
  - Verify the existence of the business within 30 days of the Note date and ensure the business is active, with the following:
    - A letter from either the businesses tax professional, regulatory agency or licensing bureau, certifying two (2) years of self-employment in the same business, and
    - Either a phone listing and/or business address using directory assistance or an internet search. o The underwriter must consider the financial strength of a self-employed borrower's business.

OTHER SOURCES OF INCOME

<u>ALIMONY OR CHILD SUPPORT</u>

Document the support will continue for at least three (3) years by one of the following:

- Copy of divorce decree or separation agreement
- Other type of written legal agreement or court decree

Document at least six (6) months' receipt of full payments made consistently.

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.

CAPITAL GAINS

Document a two-year history with Federal tax returns for the most recent two (2) years, including an IRS Form 1040, Schedule D. Use a two-year average for income if the borrower provides current evidence that they own additional property or assets that can be sold to support the borrower, and they will continue to receive the capital gain income for a minimum of three (3) years. Current receipt is not required; however, asset ownership must comply with the Age of Document Requirements section.

Capital losses do not have to be considered.

COMMISSION INCOME

Commission earnings should be averaged over the most recent two (2) years and require the following documentation:

- Most recent year-to-date pay stub reflecting the commission earnings
- W-2 forms covering the most recent 2-year period; or
- A completed Request for Verification of Employment - Fannie Mae Form 1005.

A borrower in the current job for less than two (2) years, with a minimum 2-year history of receiving commission in the same line of work, may also qualify to use commission earnings with compensating factors.

DISABILITY INCOME

Obtain a copy of the borrower's disability policy or benefits statement. This will determine current eligibility for the benefits, amount and frequency of payments, current proof of receipt, and if there is a contractually established termination or modification date.

Generally, long-term disability will not have a defined expiration date and should be expected to continue. If the borrower is receiving short-term disability that will decrease within the next three (3) years because of a conversion to long-term disability, the amount of long-term must be used as income to qualify the borrower. If the borrower is receiving short-term disability that will decrease in the near term due to a return to work, the following is also required:

- A signed letter from the borrower stating the intent to return to work once the disability no longer exists.
- Verification from the employer stating that the borrower will be allowed to return to work once the disability no longer exists.

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

Foreign income is income earned by a borrower 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 their signed federal income tax returns for the most recent two (2) years that include foreign income.

FOSTER CARE INCOME

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.
- Document that the borrower has a two-year history of providing foster-care services. If the borrower has not been receiving this type of income for two (2) full years, the income may still be counted as stable income if the borrower has at least a 12-month history of providing fostercare services. The income may not represent more than 30% of the total gross income that is used to qualify for the mortgage loan.

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 12 months and the allowance is likely to continue for the next three (3) years. The housing allowance may be added to income but may not be used to offset the monthly housing payment. 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.

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 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.

NOTES RECEIVABLE INCOME

Verify that the income can be expected to continue for a minimum of three (3) years from the date of the mortgage Note. 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.

PENSION, RETIREMENT, ANNUITY

Document regular and continued receipt of the income, as verified by letters from the organizations providing the income, copies of retirement award letters, federal income tax returns, or 1099 forms, along with at least a one-month proof of current receipt.

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.

RENTAL INCOME

If a borrower has a history of renting the subject or another property, generally the rental income will be reported on IRS Form 1040, Schedule E of the borrower's personal tax returns or on Rental Real Estate Income and Expenses of a Partnership or an S Corporation form (IRS Form 8825) of a business tax return. If the borrower does not have a history of renting the subject property or if, in certain cases, the tax returns do not accurately reflect the ongoing income and expenses of the property, the Originator may be justified in using a fully executed current lease agreement. Examples of scenarios that justify the use of a lease agreement are

- Purchase transactions,
- Refinance transactions in which the borrower purchased the rental property during or subsequent to the last tax return filing, or
- Refinance transactions of a property that experienced significant rental interruptions such that income is not reported on the recent tax return (for example, major renovation to a property occurred in the prior year that affected rental income).

RESTRICTED STOCK UNITS

Restricted stock units (RSUs) are issued to an employee through a vesting plan and distribution schedule. RSUs give an employee interest in company stock but have no tangible value until vesting is complete. The RSUs are assigned a fair market value when they vest and are considered income with a portion of the shares withheld to pay income taxes upon vesting. The employee receives the remaining shares and can sell them at their discretion. Restricted stock options may be used as qualifying income when all the following requirements are met:

- Income has been consistently received for the prior two (2) years, is continuing, and is identified on the borrower's tax returns as income.
- RSU income is calculated using a 2-year average.

- If the RSU income is declining, proof of stability must be provided, and the most conservative average used for qualifying.
- RSU income must be likely to continue for three (3) years.
- Borrower must be employed at the same company that issued the RSUs. • Employer must be a publicly traded entity (e.g., a Fortune 500 company).
- Non-vested restricted stock is not an acceptable source of income or reserves.
- Vested RSUs may not be considered as qualifying income if they are also used for down payment, closing costs, and/or reserves.

The following documentation is required:

- Evidence that stock is publicly traded.
- The most recent vesting schedule or issuance agreement showing continuance of RSU income for a minimum of three (3) years.
- To prove a 3-year continuance, take the available number of RSUs on the Note date and multiply by the 52- week low stock price, then divide by 36 months. This monthly amount must be greater than or equal to the monthly qualifying amount.
- Evidence of the payouts of RSUs for the past two (2) years. Acceptable verification includes:
  - Tax returns for the last two (2) years, reflecting RSU income. ○ Year-end paystubs reflecting the RSU payout.
  - An employer-provided statement paired with a brokerage or bank statement, showing the transfer of shares or funds, that includes the (a) date of the payout and (b) the number of vested shares and their cash equivalent distributed to the borrower.

ROYALTY INCOME

- Obtain copies of the following:
  ○ Royalty contract, agreement, or statement confirming amount, frequency, and duration of the income. ○ The borrower's most recent signed federal income tax return, including IRS Form 1040 and Schedule E.
- Confirm that the borrower has received royalty payments for at least 12 months and that the payments will continue for a minimum of three (3) years after the date of the mortgage Note.

SOCIAL SECURITY INCOME

Social Security income for retirement or long-term disability, drawn by the borrower from his or her own account/work record, will not have a defined expiration date and should be expected to continue. Eligibility needs to be documented with either a copy of the retirement, disability, or supplemental award letter, along with at least one (1) month proof of receipt. Benefits based upon another person's account for retirement, disability, or supplemental income require a copy of the award letter, current proof of receipt, and evidence of a three-year continuance.

TEACHER INCOME

Teachers are paid on a 9-month, 10-month, or 12-month basis. The pay structure should be determined before calculating the monthly income. If unable to determine the pay frequency, documentation such as a copy of their contract or documents from the school district's personnel office may be required.

TIP INCOME

Tips and gratuity income may be considered if the receipt of such income is typical for the borrower's occupation (i.e., waitperson, taxi driver, etc.). Tip income should be received for at least two (2) years and documented through the most recent year-to-date paystubs and federal income tax returns for the most recent two (2) years. Income should be averaged over the time-period verified. If the tip income is not reported on the paystubs or tax returns, then it may not be included in qualifying income.

TRUST INCOME

Confirm the trust income by obtaining a copy of the trust agreement or the trustee's statement confirming the following:

- The borrower is a beneficiary.
- The amount, frequency, and duration of the payments.
- The trust income will continue for at least three (3) years from the date of the mortgage Note. Obtain a copy of the borrower's tax return verifying receipt of the income. Unless this income is received monthly documentation of current receipt of the income is not required if the income is on the borrower's most recent tax return.

UNEMPLOYMENT BENEFIT INCOME

Income derived from unemployment compensation is generally not allowed due to the limited duration of its receipt. Seasonal unemployment, however, can be considered if the borrower is employed in a field where weather affects the ability to work, and where unemployment compensation is often received (i.e., construction). The income can be used to qualify with a two-year employment history in the same field of work and a two-year history of receipt of unemployment compensation. Income should be averaged over the time-period verified.

VA BENEFITS

Document the borrower's receipt of Veteran Administration (VA) benefits with a letter or distribution form from the VA, along with a one-month proof of receipt. Verify that the income can be expected to continue for a minimum of three (3) years from the date of the mortgage Note. (Verification is not required for VA retirement or long-term disability benefits.) Education benefits are not acceptable income because they are offset by education expenses.

VARIABLE – OVERTIME/BONUS

Bonus and overtime can be used to qualify if the borrower has received the income for the past two (2) years and it is likely to continue. An average of bonus or overtime income should be used. A written VOE (Fannie Mae Form 1005) should be obtained to provide a breakdown of bonus or overtime earnings for the most recent two (2) years. If the employment verification states the income is unlikely to continue, it may not be used in qualifying.

INELIGIBLE INCOME SOURCES

- Boarder income
- Mortgage Credit Certificates
- Educational benefits
- Mortgage Differential Payments
- Gambling winnings
- Refunds of federal, state, or local taxes

- Illegal income

ALT DOC - BANK STATEMENTS

Bank statements must be obtained from the borrower. Income documented through the Alt Doc program method may be combined with other income sources that are documented as Standard Doc but not associated with self-employment, such as a spouse employed as a wage earner. When wage income is combined with Alt Doc, a tax return is not required for the full income documentation, as this would invalidate the bank statements. The 4506-T form is still required; however, Box 8 should be checked to obtain a transcript of W-2 earnings.

RESTRICTIONS ON 24 OR 12 MONTHS OF BANK STATEMENTS

- Consult Product matrices for maximum LTV and DTI.
- Borrowers must be self-employed for at least two (2) years.
- A business must be in existence for a minimum of two (2) years.
- Minimum credit score is 620.
- The primary borrower (majority of the household income) must be self-employed.

RESTRICTIONS ON ALT DOCUMENTATION

- Tax returns and 4506-T are not required for the program. If tax returns and/or transcript are provided, the loan will be ineligible for the Alt Doc Program.

Personal Accounts

- Account reflecting personal income and expenses.
- Most recent 24 or 12 months of PERSONAL bank statements,
- Most recent two (2) months of BUSINESS bank statements.
- Verify within 60 days of the Note date that the business has a minimum two-year operating history with one of the following: a letter from either the business's tax professional, regulatory agency or licensing bureau, certifying two (2) years of self- employment in the same business.
- Verify within 10 days of the Note date the business is active and operating with either:
- Evidence of current work (executed contracts or signed invoices)
- Evidence of current business receipts
- Business website demonstrating activity supporting current business operations • Verify that the borrower owns 100% of the business by providing one of the following:
- CPA letter, Tax Preparer letter, operating agreement, or equivalent, reflecting
- the borrower's ownership percentage.

Business Accounts or Co-mingled

- Account in the name of the business reflecting only business income and expenses
- Verify within 60 days of the Note date that the business has a minimum two-year operating history with one of the following: a letter from either the business's tax professional, regulatory agency or licensing bureau, certifying two (2) years of self- employment in the same business.
- Verify within 10 days of the Note date the business is active and operating with either:
  - Evidence of current work (executed contracts or signed invoices) ○ Evidence of current business receipts
  - Business website demonstrating activity supporting current business operations
- Verify that the borrower is at least 50% owner of the business by providing one of the following:
  - CPA letter, Tax Preparer letter, operating agreement, or equivalent; reflecting the borrower's ownership percentage.
- Non-borrowing owners of the business must provide a signed and dated letter acknowledging the transaction and verifying the borrower's access to the account for income calculations.
- Net income from the analysis of the bank statements must be multiplied by the
- borrower's ownership percentage to determine the borrower's qualifying income.
- The expense analysis method should be reasonable for the type of business being reviewed.
- Co-mingled Only: Verify that the borrower is 100% owner of the business (borrower and spouse with combined 100% ownership is also eligible).

Alt Doc – 24 or 12-month Bank Statement options Three (3) options exist to analyze business accounts: *Option 1 - Fixed Expense Ratio ((50%)* ○ 24 or 12 months of business bank statements covering the most recent time- period.

  - A business narrative provided by the borrower's business which includes details regarding the industry, size, and operating profile of the business, addressing location/rent, number of employees/contractors, COGS, and physical assets such as trucks/equipment (owned or leased). The business narrative form is to be completed by an employee (non-relative) of the borrower's business, with knowledge and information of the operations and finances of the business. Typical positions held by this employee would include: Controller, Treasurer, V.P. Finance, Finance Manager, or Accounting Manager. This form can also be completed by a third-party individual with direct knowledge of the borrower's business, such as Certified Public Accountant or an IRS Enrolled Agent.

- *Option 2 - Business Expense Statement Letter* ○ 24 or 12 months of business bank statements covering the most recent time- period and ○ An expense statement specifying business expenses (minimum expense ratio is 10%) as a percent of the gross annual sales/revenue, prepared and signed by a CPA; and
  - Credit file must contain documentation showing evidence of the preparers business.

- *Option 3 – 24 or 12 Month Third Party Prepared P&L Statement* ○ 24 or 12 months of business bank statements covering the most recent time- period and matching the time-period covered by the P&L and
  - P&L covering 24 or 12 months, matching the number of bank statements, prepared and signed by either a CPA/accountant, IRS Enrolled Agent or licensed tax preparer; and
  - Credit file must contain documentation showing evidence of the preparers business.

<u>ALT DOC INCOME ANALYSIS</u>
In addition to the factors described in the Income Analysis section of this guide, Originators should consider the following:
- Expenses must be reasonable for the type of business.
- Deposits should be reviewed for consistency.
- Inconsistent or large deposits should be sourced or excluded from the analysis. The definition of a large deposit under 1.7.2 - Asset Documentation applies to Alt Doc bank statement analysis.
- Changes in deposit pattern must be explained.
- Income documented separately, but co-mingled, must be backed out of deposits.

PERSONAL BANK STATEMENT REVIEW
- Income calculated using total deposits, minus any inconsistent or large deposits not justified. Qualifying income based upon the lower of the income disclosed on the initial loan application (Fannie Mae Form 1003), or the total eligible deposits from the 24 month or most recent 12 months of statements. The most recent bank statement must be consistent with the qualifying income.
- ATM deposits may be included if a consistent pattern of such deposits is present.
- Two (2) months of business bank statements are required. ○ They must evidence activity to support business operations. ○ They must reflect transfers to the personal account.

BUSINESS AND CO-MINGLED BANK STATEMENT REVIEW

The Solve Business Bank Statement calculator will be available soon.

<u>Option 1 - Fixed Expense Ratio – (50%)</u>

Businesses within an industry that experience higher expense ratios are not eligible for the 50% Margin method and must utilize another option. Higher expense ratio industries include, but are not limited to the following:

- Construction
- Manufacturing
- Retail and Wholesale Trade
- Hospitality, Food and Beverage Services
- Transportation

The Business Narrative Form should be used to determine if the borrower's business is eligible for this option.

Determining Qualifying Income

- Qualifying income is the lower of:
  - Total deposits from the bank statements, minus any inconsistent deposits, multiplied by Profit Margin determined by analysis of business, multiplied by ownership percentage, divided by the number of bank statements reviewed, or
  - If 24 months of statements reviewed, total deposits from the most recent 12 months of bank statements, minus any inconsistent deposits, multiplied by Profit Margin determined by analysis of business, multiplied by ownership percentage, divided by 12, or
  - The income indicated on the initial loan application (Fannie Mae Form 1003).
- The deposits from the most recent bank statement must be consistent with the qualifying income.
- Solve reserves the right, at the reviewer's discretion, to require additional documentation if the expense ratio appears unreasonable for any business entity.

<u>Option 2 - Business Expense Statement Letter</u>

- Net Income is determined by the total deposits (minus any inconsistent deposits) reflected on the bank statements, less total expenses. Total expenses are calculated by multiplying the total deposits by the expense factor provided by a CPA (subject to a minimum total expense percentage of 10%). Qualifying income is the lower of:
  - For the 24-month statement option, the net income from the analysis using all 24 months of bank statements, or
  - For both the 24- or 12-month statement option, the net income based upon the most recent 12 months of bank statements, or ○ The income indicated on the initial loan application (Fannie Mae Form 1003).
- The most recent bank statement must be consistent with the qualifying income.
- Expenses must be reasonable for the type of business.

Solve reserves the right, at the reviewer's discretion, to require additional documentation if the expense ratio appears unreasonable for any business entity.

Option 3 - Third-party prepared P&L Statement

- P&L Sales/Revenue must be supported by the provided bank statements. Total deposits reflected on the bank statements, minus any inconsistent deposits, must be greater than or no more than 10% below the sales/revenue reflected on the P&L. The bank statements and P&L must cover the same time period. If the deposits support the sales, qualifying income is the lower of:
  - The Net Income indicated on the P&L divided by the number of statements (24 or 12), o Total deposits reported on the bank statements, minus any inconsistent deposits, divided by the number of statements (24 or 12) or
  - The income indicated on the initial loan application (Fannie Mae Form 1003).
- For the 24-month option, the average total deposits from the most recent 12-month time period must be consistent with the average total deposits from months 13-24. If the deposit trend is declining, a business narrative and explanation is required to determine if the loan meets the stable income definition in Earning Trends section.

Rental income

Borrowers using the Alt Doc bank statement documentation type may include rental income as a secondary source, if the following apply:

- A copy of the lease(s) for the rental property is provided in the credit file.
- Must provide two (2) months of proof of the receipt of rental income. The deposits must be to a separate bank account. Any deposits in the business bank statements used in the business income analysis are not eligible.
- 75% of the verified monthly rental income can be used to offset the PITIA of the rental property.

NON-SUFFICIENT FUNDS

- Non-sufficient funds (NSF) or negative balances reflected on the bank statement must be considered. Overdraft protection fees associated with a pre-arranged link to a savings account or line of credit must also be considered unless one of the following conditions exist:
  - Overdraft protection from a depository account: Occurrences may be excluded if statements for the linked account confirm that (a) the linked account balance at the time of the transfer exceeded the amount of the overdraft transfer, (b) the linked account's balance did not report as zero or negative at any point during the statement period of the transfer, and (c) the linked account did not itself receive overdraft protection proceeds during the statement period of the transfer.
  - Overdraft protection from a line of credit: Occurrences may be excluded if statements for the linked account confirm that (a) the line's credit limit was not exceeded during the statement period of the transfer, and (b) a payment amount which equals or exceeds the sum of all overdraft protection occurrences analyzed in the statement period is made within 30 days after the statement close date.

- Occurrences included in the analysis are subject to the following tolerances: ○ An occurrence is defined as one or more checks returned the same day.
- If there are one (1) or more occurrences in the most recent two-month time period, up to three (3) occurrences are allowed in the most recent 12-month time period. ○ If there are zero (0) occurrences in the most recent three-month time period, up to five (5) occurrences in the most recent 12-month time period are acceptable.
- Exception requests for tolerance deviations must include
  - A letter of explanation from the borrower outlining the reason for the occurrences and an explanation of how and when the issue leading to the occurrences was rectified, and
  - Additional compensating factors outlined by the underwriter supporting the viability of income. ○ The underwriter must consider the financial strength of a self-employed borrower's business.

ALT DOC – CPA/EA PROFIT & LOSS STATEMENT

Profit & Loss statement prepared by a Certified Public Accountant (CPA) or an IRS Enrolled Agent (EA). The credit file must contain documentation showing the CPA is currently licensed in their state or the EA is currently active (Screen shot of the IRS web site).

- 24 or 12-Month CPA or EA compiled P&L Statement.
  - 24 or 12-month (P&L) prepared/complied and signed by a CPA (proof of CPA current state license required or EA (proof EA currently active on IRS web site) dated within 30-days of the loan application, and
  - The preparer must attest they have prepared the borrower's most recent tax return; and ○ A minimum 2-months of business bank statements covering the most recent 2-month period.

The 2-months of business bank statements must support the sales reflected on the Profit and Loss Statement prepared by either a CPA or EA. The average deposits from the bank statements must be greater than, or no less than, 10% below the average monthly sales. In the event the 10% tolerance is not met, continuous bank statements may be added to the analysis until the tolerance is met. The qualifying income is the lower of (a) the net income from the P&L divided by 24 or 12, or (b) total deposits per bank statements, minus any inconsistent deposits, divided by the number of bank statements, or (c) the income disclosed on the initial 1003.

ALT DOC - IRS FORM 1099

Permitted for borrower's earning 100% commission or for independent contractors

- 1-year or 2-years of 1099s permitted
- 4506-T required along with a transcript for the 1099s
- One of the following Business expense analysis methods: ○ 90% Net Margin (10% Expense Factor)
  ○ 3rd Party prepared P&L (CPA, EA, accountant, tax preparer)
- Qualifying income is the 12 or 24 monthly average from the total number of 1099's minus the expense factor from the method chosen above

- YTD earnings must be documented to support the ongoing receipt of income showing on the 1099s by:
- Checks or a single check stub(s) with YTD totals if available, or
- Bank statements (YTD).
- The YTD earnings from the total of check stubs or the tally of deposits from bank statements must be within 10% or greater than prior year earnings.
  The Alt Doc Loan/LTV matrix should be utilized, see the Product Matrix.

ALT DOC – WRITTEN VERIFICATION OF EMPLOYMENT

A written Verification of Employment may be utilized when the only source of earnings is wages/salary.
The following criteria applies:

- Two-year history with same employer is required.
- Completed Fannie Mae Form 1005.
- Minimum credit score:
  - Non-Prime - 660
  - Alt-A - 660
- Primary Residence Only.
- 24-month 0x30 housing history required.
- Paystubs, Tax Returns, 4506-T, or W-2's not required.
- Eligible for Non-Prime and Alt-A only:
  - Max LTV 80% for purchase/R&T. Max LTV for cash out is 70%.
- Must be completed by Human Resource, Payroll Department or Officer of the Company.
- Two (2) Months Personal Bank Statements required to support the WVOE. The bank statements must reflect deposits from the employer supporting at least 65% of gross wage/salary reflected on the WVOE.
- FTHB maximum LTV 70%, no gift funds allowed.
- Borrower(s) employed by family members or related individuals are not eligible.
- Only eligible source of income is limited to Wage/Salary. Supplemental income sources such as rental income not permitted.
- An internet search of the business is required with documentation to be included in the credit file to support existence of the business.

ALT DOC - ASSET UTILIZATION

The Asset Utilization loan program is an option for an underwriter to use a Borrower's liquid assets to augment income or loan and product qualification purposes.

<u>RESTRICTIONS</u>

- See Solve Matrices for the max LTV.
- Non-occupant co-borrowers not allowed.
- Max 43% DTI.
- Minimum 680 credit score.

- Gift funds not eligible.

ASSET UTILIZATION QUALIFYING METHOD

Debt Ratio Calculation: Minimum Eligible Assets required is the lower of $1,000,000 or 150% of the loan balance. Qualifying income based upon Total Assets Eligible for Depletion, less down payment, less out of pocket closing costs, less required reserves, divided by 100. Maximum DTI 43%.

ASSET UTILIZATION INCOME DOCUMENTATION

- All individuals listed on the asset account(s) must be on the Note and Mortgage.
- Assets considered for this program must be verified with most recent three (3) months of account statements or a VOD.

- Assets must be seasoned 120-days.
- Income other than Asset Utilization, must be documented in accordance with the Alt-A program, including tax returns and 4506-T.

ASSETS ELIGIBLE FOR DEPLETION

Assets must be liquid and available with no penalty; additional documentation may be requested to validate the origin of the funds:

- 100% of Checking, Savings, and Money Market Accounts
- 75% of Stocks, Bonds, and Mutual Funds.
- 70% of Retirement Assets.

ASSETS ELIGIBLE FOR DEPLETION

- Equity in Real Estate.
- Privately traded or restricted/non-vested stocks.
- Any asset which produces income already included in the income calculation.
- Any assets held in the name of a business.

DEBT SERVICE COVERAGE (INVESTMENT PROPERTIES ONLY)

For Debt Service Coverage documentation, property income is used to qualify the transaction. Debt Service Coverage is available to experienced investors purchasing or refinancing investment properties for business purposes. The borrower is required to sign a Borrower Certification of Business Purpose and an Occupancy Certification.

PROPERTY INCOME ANALYSIS

Gross rents are utilized in the DSCR calculation. Gross rents are the lower of the actual rents from lease agreement(s) and market rents from either Fannie Mae Form 1007 or Form 1025 in the case of a multi-family property. If the lease agreement reflects higher rents than the Form 1007, the lease amount may be used for gross rents if two (2) months' proof of receipt is verified. For purchase transactions without an existing lease the gross rents indicated on the Form 1007 may be used without a lease agreement.

DEBT SERVICE COVERAGE RATIO (DSCR)

Debt Service Coverage Ratio is the Monthly Gross Income divided by the PITIA of the subject property. See the Solve Eligibility matrix for required Debt Service Coverage Ratios.

EXAMPLE: DEBT SERVICE COVERAGE RATIO

- Single Family Purchase Money Transaction
- Monthly PITIA = $650
- Estimated Monthly Market Rent (Fannie Mae Form 1007) = $850
- Existing Lease Monthly Rent = Not Available
- Use Market Rent of $850 (*Estimated Monthly Market Rent when a lease is not available for a purchase transaction*).
- Gross Rents ($850) ÷ PITIA ($650) = DSCR (1.30)

LEASE DOCUMENTATION REQUIREMENTS

PURCHASE

- Fannie Mae Form 1007, if applicable.
- Existing lease agreement(s), if applicable.
- If the existing lease is being transferred to the borrower, the Originator must verify that it does not contain any provisions that could affect the first lien position of the subject property.

REFINANCE

- Fannie Mae Form 1007, if applicable.
- Copy of the existing lease agreement(s) if the appraisal report reflects that the property is tenant-occupied.
- If there is a new lease, a copy of the lease must be included along with proof of receipt of the damage
- deposit and first month's rent.
- If subject property leased on a short-term basis utilizing an on-line service such as Airbnb; gross monthly rents can be determined by using a 12-month look back period; and either 12monthly statements, or an annual statement provided by the on-line service to document receipt of rental income. In addition, a screen shot of the online listing must show the property is activity marketed as a short-term rental. A 5% LTV reduction required when using short term rental income to qualify.
- Unleased or vacant property will BE viewed on a case by case scenario

BORROWER EXPERIENCE

EXPERIENCED INVESTOR

A borrower who has owned two (2) or more properties for at least 12 months (primary, investment, or commercial properties can be included) during the most recent thirty-six (36) month period. One (1) of the properties having documented rental income of 12 months or more. The rental income can be documented with one of the following:

- Two (2) mortgage tradelines reported on the credit report or VOM, reflecting 0x30x12 history.
- A copy of the most recent lease(s) with two (2) months' proof of receipt. Verification of the minimum number of properties for an experienced investor is required.

FIRST-TIME INVESTOR

A borrower that does not meet the Experienced Investor criteria. First Time Investors must have owned a property for twelve (12) months anytime during the past thirty-six (36) months.

RESTRICTIONS

- See the Solve Matrices for the maximum LTV.
- If the loan amount is < $150,000 the minimum DSCR is 1.50.
- Minimum credit score of 640.
- No rural properties.

- Gift funds permitted after a minimum 10% borrower contribution, documented per 1.7.0 - Assets
- Recent late payments on all consumer debt may not exceed 1X60 over the prior 12 months.

BORROWER INCOME

- No proof of borrower income is required.
- The employment section of the Fannie Mae Form 1003 loan application should be completed, including a valid phone number. No further verification is required.

RENT LOSS INSURANCE

Rent loss insurance covering a minimum of six (6) months is required for the subject property.

DEFAULT EVENT

If a loan payment is delinquent for 60 days, Solve's loan servicer will enforce the following provision from the 1-4 Family Rider (Fannie Mae Form 3170): Paragraph "G" - Assignment of Leases.