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NonQM Program Guidelines

General Policy

Loanhouse Non-QM Program Underwriting Guidelines establish the criteria under which a residential mortgage loan will be eligible for purchase by Loanhouse.

Loanhouse evaluates many aspects of the loan to make a purchase determination but primarily relies on evaluation of the borrower's ability and willingness to repay the loan to predict loan performance. Additional characteristics of the loan are also be examined including credit history, asset position and the property being used for collateral.

Loanhouse has a zero-tolerance policy as it relates to fraud. Sellers should follow their own established fraud and identity procedures on every loan to prevent and detect fraud (including, but not limited to, Social Security number verification, verbal verifications of employment, processing of 4506-C, etc.). Loans containing fraudulent documentation or information will immediately be rejected for purchase and forwarded for further review. If there is any determination of seller involvement, the seller will be made inactive, and the appropriate agencies notified. It is the seller's responsibility to ensure that all loans it originates comply with all federal, state, and local laws applicable to the origination and sale of mortgage loans.

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

Loanhouse NonQM Program

The Loanhouse Non-QM Program is intended to reference and supplement Fannie Mae's Selling Guide. Sellers should refer to the Fannie Mae Selling Guide for specific information concerning qualification requirements that are not specifically referenced herein. To the extent there is a difference in standards between the Loanhouse Home Lending Non-QM Program Guidelines and the Fannie Mae Guides; rely on the Loanhouse Home Lending Non-QM Program Guidelines.

Product Highlights

Simple Access: Full & Alt Documentation

The Non-QM Simple Access Program is for borrowers with a clean derogatory housing event history (>=48 months clean) and mortgage history (0x30x12).

The Simple Access: Full Doc program allows borrowers to qualify:

- Full Documentation (24 months), or
- Streamline Documentation (12 months)

The Simple Access: Alt Doc Program allows borrowers to qualify with:

- 12 Month 3rd Party P&L
- 12M/24M Personal and Business Bank Statements

Simple Access Programs allow:

- Maximum Loan Size of $2.5M
- Maximum LTV of 90%
- Minimum FICO of 660
- Qualifying Ratio - DTI requirements:
  - DTI > 43% must meet Residual Income Requirements
  - DTI > 50-55% requires
    - FICO score of 700 or greater
    - Maximum LTV 80%
    - Primary Residence only, no FTHB
    - Requires 1.5x Residual Income as defined in Underwriting Analysis below
- Interest Only Requirements:
  - Minimum 700 FICO
  - Maximum 85% LTV
  - 6 Months Minimum reserves
- Cash-Out can be used as reserves

Simple Access: DSCR Product Highlights

Loanhouse's Simple Access: DSCR Program is intended for professional investors with more than 12 months' experience.

- First Time Investors are allowed provided:
  - DSCR is >1.0
  - Credit score is >700
  - There are no exceptions on the file

  - First Time Investors MAY NOT be a First Time Homebuyer
- Derogatory housing event history:
  - (>=36 months clean) and mortgage history
  - (0x30x12) seeking a business purpose, non-owner-occupied loan
- Borrowers will qualify with property income (Debt Service Coverage Ratio):
  - DSCR ≥ 1.00 – Minimum FICO is 720
  - DSCR ≥ 0.75 – Minimum FICO is 700
  - DSCR < 0.75 – Minimum FICO is 660
- Debt Service Coverage Ratio Calculation:
  - Amortizing DSCR = Gross Rental Income / PITIA
  - Interest Only DSCR = Gross Rental Income / ITIA
- Interest Only acceptable with the following restrictions
  - DSCR ≥ 1.00: Minimum FICO 700, Maximum 75% LTV
  - DSCR ≥ 0.75: Minimum FICO 700, Maximum 70% LTV
  - DSCR <.75 : Interest-Only Not Permissible
- Business Purpose Only - No personal income to qualify
- Personal recourse required for all entity members.
  - No additional borrowers are allowed to join an entity on Title or on the subject loan
- Maximum Loan Size of $2.0M
- Maximum LTV of 80%
- Minimum FICO of 660
- 3 months minimum reserves
- No requirement for additional reserves for other financed properties, Subject Property reserves only
- Cash-Out can be used as reserves
- Housing history verified on subject property and borrower's primary residence only
  - Twelve (12) months housing history is required

Product Eligibility

Product	Qualifying Rate	Term	IO Term	Amort. Term	Index	Caps
5/6 ARM	Higher of Fully Indexed or Note Rate	360		360	30 Day SOFR	2/1/5
5/6 ARM IO	Higher of Fully Indexed or Note Rate	360	120	240	30 Day SOFR	2/1/5
5/6 ARM IO	Higher of Fully Indexed or Note Rate	480	120	360	30 Day SOFR	2/1/5
7/6 ARM	Higher of Fully Indexed or Note Rate	360		360	30 Day SOFR	5/1/5
7/6 ARM IO	Higher of Fully Indexed or Note Rate	360	120	240	30 Day SOFR	5/1/5
7/6 ARM IO	Higher of Fully Indexed or Note Rate	480	120	360	30 Day SOFR	5/1/5
10/6 ARM	Higher of Fully Indexed or Note Rate	360		360	30 Day SOFR	5/1/5
10/6 ARM IO	Higher of Fully Indexed or Note Rate	360	120	240	30 Day SOFR	5/1/5
10/6 ARM IO	Higher of Fully Indexed or Note Rate	480	120	360	30 Day SOFR	5/1/5
15 Yr. Fix	Note Rate	180		180		
30 Yr. Fix	Note Rate	360		360		
30 Yr. Fix IO	Note Rate	360	120	240		
40 Year Fix IO	Note Rate	480	120	360		

ARM Criteria

- ARM floor is equal to the loan's initial margin
- 30 Day Average SOFR Index as published by the New York Federal Reserve
- Reset Period on ARMs will occur every six months after the initial reset

Simple Access: Full Doc & Simple Access Alt Doc

- Index – 30-Day Average SOFR – Secured Overnight Financing Rate
- Caps – 5/6: 2/1/5 7/6 and 10/6: 5/1/5

- Margin – 4.00%
- Floor – Margin
- Qualification Rate –Qualify at the greater of the Fully Indexed Rate or the Note Rate.

Simple Access: DSCR

- Index – 30-Day Average SOFR – Secured Overnight Financing Rate
- Caps – 5/6: 2/1/5 7/6 and 10/6: 5/1/5
- Margin – 5.00%
- Floor – Margin
- Qualification Rate –Qualify at the greater of the Fully Indexed Rate or the Note Rate.

Derogatory Housing Events

Simple Access: Full Doc & Alt Doc - Housing Event Seasoning: 4+ Years

Simple Access: DSCR - Housing Event Seasoning: 3+ Years

Derogatory Housing Events:

- Foreclosures, Short Sale, Deed in Lieu, Modification, Notice of Default, or 120+ Days Delinquent
- Bankruptcies are considered Housing Events, inclusive of Chapter 7, 11, and 13
- Defaulted first and second mortgages on same property are considered one (1) event
- Events include all occupancy types (Primary, Second Home, and Investment Properties)
- Seasoning lookback is from the date of discharge / dismissal or property resolution (completion date), as of the note date
    - Modification look back commences at inception (when loan was permanently modified)

Housing History

Simple Access: Full Doc & Alt Doc - Payment History: 0x30x12 / 0x60x24

Simple Access: DSCR - Payment History: 0x30x12

- Twelve (12) month mortgage / housing history includes all occupancy types:
    - Primary, Second Home and Investment Properties

Geographic Restrictions

The following states/territories are NOT eligible:

- Massachusetts

- Puerto Rico
- Guam
- American Samoa
- Northern Marina Islands
- U.S. Virgin Islands.

Minimum Loan Amount

- Simple Access: Full Doc & Simple Access Alt Doc: $150,000
- DSCR: $125,000

Debt to Income (DTI)

- DTI > 43% or HPML must follow Loanhouse's residual income requirements as noted in the Underwriter Analysis section
- DTI > 50-55% requires
  - FICO score of 700 or greater
  - Maximum LTV 80%
  - Primary Residence only, no FTHB
  - Requires 1.5x Residual Income as defined in Underwriting Analysis below
- For I/O qualifying rate / payment, calculate using the higher of the fully indexed rate or initial rate based on the original balance and remaining amortizing term at the end of the I/O period (i.e., 240 months or 360 months).
- For fixed rate loans, apply the fixed rate. Qualifying payment for I/O must include a principal component. Applicable to Simple Access Full & Alt Docs products.

Cash Out Limits

Simple Access: Full Doc & Alt Doc

- LTV > 60% - Maximum Cash-Out $750,000
- LTV ≤ 60% - Maximum Cash-Out Unlimited

Simple Access: DSCR

- LTV > 60% - Maximum Cash-Out $500,000
- LTV ≤ 60% - Maximum Cash-Out Unlimited
- Foreign National (regardless of LTV) – Maximum Cash-Out $250,000

Prepayment Penalties

Where permitted by applicable laws and regulations on an investment property, a prepayment charge may be assessed in the period between none (0) and five (5) years following the execution date of the Note.

- Prepayment penalties are not allowed in AK, KS, MI, MN, NM, and RI.
- Prepayment penalties are not allowed on loans vested to individuals in IL and NJ.
- Pennsylvania – Prepayment penalties are not allowed on loan balances less than an adjusted value as determined by the Dept of Banking & Securities. For calendar year 2025 the base figure amount is $319,777.
- Only declining prepayment penalty structures are allowed in MS.

The following prepayment structures may be used:

- **Six (6) months of interest** – The prepayment charge will be equal to six (6) months of interest on the amount of the prepayment that exceeds 20% of the original principal balance. The charge applies to loans that pay off due to sale or refinance, or curtailments that exceed 20% of the original principal balance in a given 12-month time period.
- **A fixed percentage of no less than 3%** - The prepayment charge will be equal to a fixed percentage and applied to any curtailment or the entire outstanding principal balance during the prepay period. The charge applies to loans that pay off due to sale or refinance.
- **Sliding Scale (step-down structure)** that does 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.

Where a prepayment penalty is applied, it must be a hard prepayment penalty (i.e. a prepayment penalty that applied to both the sale of the home and a refinance). *See* the rate sheet for availability.

Reserves

- Reserves are calculated off actual P&I payment plus taxes, insurance, and HOA fees (PITIA) for the subject property
- Reserves for an Interest Only (IO) loan will be based on the initial Interest Only payment (ITIA) for the subject property
- Additional reserves are required for borrower(s) with additional financed properties other than the Subject property (Applicable to Simple Access Full & Alt Doc.)
- DSCR Loans do not require reserves for additional financed properties, Subject property only

- Borrower(s) will be required to meet the subject property reserve requirement plus two months of reserves for each additional financed property, capped at a total of 12 months reserves for all properties (including Subject property)
    - Example: Borrower with five (5) financed properties with a total monthly PITIA / ITIA of $5,000 must have an additional $10,000 in reserves in addition to the Subject property requirements
- Reserves must be documented as outlined in the **Liabilities > Departing Residence > Obligation** - based on contract status.
- Cash-Out proceeds may be used in reserve calculation

Subject Loan Amount	Required Reserves	
	Full Doc & Alt Doc	DSCR
$125,000 - $500,000	6 Months	3 Months
$500,001 - $1,000,000	6 Months	6 Months
$1,000,001 - $2,000,000	9 Months	6 Months
$2,000,001 - $2,500,000	12 Months	Not Applicable
Additional Financed Properties	(2) Months Incremental PITIA/ITIA Per Financed Property	None
Cash-Out Used as Reserves	Permitted	Permitted

Borrower Eligibility

- U.S. Citizens
- Permanent Resident Aliens
- Non-Permanent Resident Aliens
- Foreign National (DSCR Only)
- Foreign National [ITIN] (DSCR Only)
- Non-Occupant Co-Borrowers
- Inter Vivos Revocable Trust (Must meet FNMA requirements)
- Entities
    - Limited Partnerships
    - General Partnerships
    - Corporations
    - Limited Liability Companies (LLC)

Permanent Resident Aliens

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

- Acceptable evidence of lawful permanent residency must be documented and meet one of the following criteria:
  - I-151 – Permanent Resident Card (Green Card) that does not have an expiration date
  - I-551 – Permanent Resident Card (Green Card) issued for 10 years that has not expired
  - I-551 – Conditional Permanent Resident Card (Green Card) issued for two (2) years that has an expiration date, if it is accompanied by a copy of USCIS form I-751 requesting removal of the conditions
- Unexpired Foreign Passport with an unexpired stamp reading as follows: "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until mm-dd-yy. Employment Authorized."

Non-Permanent Resident Aliens

Requirements

- The following Visa classifications are allowed as Non-Permanent Resident Aliens:
  - E-1
  - E-2
  - E-3
  - H-1B
  - O-1
  - EB-5
  - L-1
  - R-1
  - G-1 through G-5
  - NATO
  - TN (NAFTA)
- Copies of the borrower's passport and unexpired visa must be obtained. Acceptable alternative documentation to verify visa classification is an I-797 form (Notice of Action) with valid extension dates and an I-94 form (Arrival / Departure Record). Borrowers unable to provide evidence of lawful residency status in the U.S. are not eligible for financing
- A valid employment authorization document (EAD) must be obtained if the visa is not sponsored by the borrower's current employer. If the visa will expire within six (6) months of note date, it is acceptable to obtain a letter from the employer documenting the borrower's continued employment and continued visa renewal sponsorship (employer on the loan application must be the same as on the unexpired visa)
- If a non-U.S. citizen is borrowing with a U.S. citizen, it does not eliminate visa or other residency requirements. Individuals in possession of spouse or family member visas are to qualify as co-borrowers only. A valid EAD must be provided to use income for qualification
- Borrowers who are residents of countries which participate in the Department of Homeland Security's Visa Waiver Program (VWP) will not be required to provide a valid visa. Participating countries can be verified through the U.S. Department of State website: https://www.dhs.gov/visa-waiver-program-requirements

Restrictions

- Maximum 80% LTV / CLTV
- Purchase and Rate / Term Refinances only

Foreign National

A Foreign National is a non-U.S. Citizen 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.

Loan Criteria:

- Simple Access DSCR Product Only
  - Investment / Non-Owner Occupied Properties Only
- Max Loan Size: $1.0 million
- Max LTV: 65%
- Minimum FICO Score: 680 / Foreign Credit
- Minimum DSCR: 1.00

Credit Qualification:

US Credit

- Minimum FICO: 680
- A U.S. credit report should be obtained for each foreign national borrower with a valid Social Security Number (SSN). For borrowers without a valid Social Security Number, an Individual Taxpayer Identification Number (ITIN) is also allowed. An ITIN is acceptable if the borrower has the ITIN for the purpose of reporting taxes from passive income sources and is not employed in the US.

Foreign Credit

- No Minimum FICO requirements
- Foreign Nationals who do not have a valid SSN or ITIN may still proceed under the Foreign National program with all other requirements still applicable:
  - Three open accounts with a two (2) year history reflecting no late payments
  - Mortgage and/or rental payment must be verified with a twelve (12) month history not to exceed 0x30 in the past twelve (12) months
  - A two (2) year housing history can be used as a tradeline
  - U.S. credit accounts can be combined with letters of reference from verifiable financial institutions in a foreign country to establish three (3) open accounts. If letters are obtained, they must:

- State the type and length of relationship, how the account(s) are held, and the status of the account(s)
- Contain contact information for the person(s) signing the letter(s)
- Any translation required must be signed and dated by a certified translator

Income Qualification:

- Borrowers qualify using Income from Rental Properties (DSCR ≥ 1.00)
  - If using documents to qualify; Lease Agreements, Rental Income Verification, and/or Bank Statements from a foreign source must be translated to English by a certified independent translator.
- DSCR qualification applies only to Non-Owner-Occupied properties.

Occupancy Restrictions:

- Only Investment Properties qualify.
- Primary residences or Second Homes are not allowed.

Reserves and Cash-Out:

- Minimum Reserves: 12 months of PITIA (Principal, Interest, Taxes, Insurance, and HOA).
- Cash-Out Proceeds: Can be used as reserves.
- Max Cash-Out: $250,000.

Additional Requirements:

- Personal Guarantee required for DSCR loans.
- Interest-Only Loans Not Permitted.
- Housing Event Seasoning: Must be clean for at least 4+ years.

Visa and Documentation:

Borrowers must provide a valid passport and unexpired visa.

- If the authorization for temporary residency will expire within one year of closing and a prior history of residency status renewals exists, continuation may be assumed. If there are no prior renewals, the likelihood the authorization will be renewed must be determined based on information received from the USCIS.
- Acceptable visas include:
  - B-1
  - B-2

- H-2
- H-3
- J-1
- J-2
- P-1
- P-2
- O-2

First Time Homebuyers

First Time Home Buyers (FTHB) are individuals that have not owned a home or had a residential mortgage in the last three (3) years.

- The following are required for FTHB:
  - Maximum DTI: 50%
  - Maximum payment shock of 250%
  - LOE or rent-free letter is required when a twelve (12) month housing history is not applicable.
    - Rent-free is permitted with no credit exceptions
- Not eligible for DSCR program
- Not eligible for Interest Only

Non-Occupant Co-Borrower

Non-Occupant Co-Borrowers are credit applicants that do not occupy the subject property. The following requirements must be met:

- Must be either:
  - 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 non-relative that shares a familial relationship with the borrower defined as a domestic partner (or relative of the domestic partner), individual engaged to marry the borrower, former relative, or godparent.
- Must sign the mortgage / deed of trust
- Must not have an interest in the property sales transaction
- Maximum LTV / CLTV of 80% or limited as posted on applicable Loanhouse Program Matrices, whichever is lower
- Single unit primary residence only
- Maximum DTI of 43%
- Additional six (6) months reserves required for subject property
- Occupying borrower must have documented income equal to 75% of PITIA
- Purchase and Rate / Term Refinance only

Entities

Properties vested as a Limited Partnership (LP), General Partnership (GP), Corporations (Corp), and Limited Liability Companies (LLC) are limited to Investment and Business Purpose.

The following requirements must be met:

- For entity vesting, the purpose is for ownership and management of real estate
- All entity owners (maximum four 4) meeting the Guarantor eligibility noted below must be disclosed and credit qualify
  - All borrower(s) must execute the Occupancy Certification or similar form
  - For DSCR borrower(s) obtaining a Rate / Term or Cash-Out Refinance loan, the borrower must execute a Business Purpose & Occupancy Affidavit.
  - Guarantor(s) must be a managing member or majority owner as confirmed by the Operating Agreement (or equivalent) and have at least 25% ownership of the business entity. Said guarantor is subject to the same underwriting requirements as an individual borrower
  - Personal Guaranty(s) required if Note is not being signed individually (see below for signing example) and must sign all closing documents and disclosures. All borrower(s) will be required to provide Personal Recourse
- The following entity documents are required:
  - Articles of Incorporation
  - Operating Agreement
  - Tax Identification Number
  - Certificate of Good Standing, dated within 30 days of closing
- Layered entities are permitted up to two (2) layers when there is a single Guarantor of the top entity which is, 100% owner / guarantor of bottom entity (title holder / borrower).
- Entities layered with a trust are NOT eligible
- Guideline requirements above must be met for each entity
- Entity Signature Requirements
  - The note must be signed by both the guarantor in their individual capacity and as member(s) and/or managing member of the entity. In cases where there will not be any individual capacity signatures, each applicable guarantor / manager must sign a Personal Guaranty in their individual capacity.
  - The Mortgage / Deed of Trust / security instrument should be signed by the applicable guarantor(s) of the entity in their capacity as member(s) and/or managing member of the entity.
    Examples:
    - Note: Phil Homeowner (Individual signature if person is not signing a Personal Guaranty) or Phil Homeowner, as member of 123 Enterprises, LLC
    - Mortgage / Deed of Trust:Phil Homeowner, as member of 123 Enterprises, LLC

Ineligible Borrowers

Loanhouse will not purchase loans that have been made to any of the following borrower types:

- Irrevocable or Blind Trusts
- Layered Entity with a Trust
- Land Trusts
- Non-profit organizations
- Borrowers with diplomatic immunity
- Foreign National or Individual Tax Identification Number (ITIN) borrowers on Full Doc or Alt Doc Products
- DACA and asylum applicants
- Self-employed borrower deriving their income from any Cannabis related business
- Borrowers(s) with residence of any country not permitted to conduct business with U.S. Companies as determined by U.S. government authority

Occupancy Eligibility

Primary Residence

- A primary residence is a property that the borrower(s) currently resides in (refinance) or intends to occupy (within sixty (60) days) as his or her principal residence
- 2–4 Unit properties are eligible as primary residences provided, they are common for the area and exhibit no unique characteristics that can influence marketability.
- Characteristics that may indicate that a property is used as a borrower's primary residence include:
  - Occupancy by the borrower for the major portion of the year
  - Location is (relatively) convenient to the borrower's principal place of employment
  - Property is the address of record for such activities as federal income tax reporting, voter registration, occupational licensing, and similar matters
  - Borrower may not own an additional single-family residence of equal or greater value than subject property

Second Homes

A property is considered a second home when it meets all the following requirements:

- Must be located a reasonable distance away from the borrower(s) principal residence
- Must be occupied by the borrower(s) for some portion of the year
- Is restricted to a one-unit dwelling
- Must be suitable for year-round occupancy
- The borrower(s) must have exclusive control over the property
- Must not be subject to any timeshare arrangements, rental pools or other agreements which require the borrower to rent the subject property or otherwise give control of the subject property to a management firm
- Gift funds not permitted on Second Homes >80% LTV / CLTV

Non-Owner Occupied

- Occupancy designation for an income producing property where the borrower does not occupy the Subject property
- All borrower(s) must execute an Occupancy Certification or similar form.
- For DSCR borrower(s) obtaining a Rate / Term or Cash-Out Refinance loan, the individual signing the Note and/or providing a personal guaranty must execute a Business Purpose & Occupancy Affidavit
- For non-owner-occupied loans with a Guarantor, the individual(s) providing the guarantee must execute a Personal Guaranty Agreement

Restrictions

- Rural properties not permitted on DSCR program
- Gift funds not permitted on Non-Owner-Occupied loans >80% LTV / CLTV

Transaction Eligibility

Eligible Transactions

Purchase

- A purchase transaction is one which allows a buyer to acquire a property from a seller where the proceeds of the transaction are used to finance the acquisition of the Subject property
- The lesser of the purchase price or appraised value of the Subject property is used to calculate the LTV
- Sellers must have owned the property more than 6 months, otherwise the transaction is subject to review as a Flip Transaction
  - Scenarios that meet the definition of a "Flip Transaction" on page 25 must meet additional requirements
- Bank owned REO and Corporate Relocations are eligible and not considered a flip transaction
- Maximum Interested Party Contributions permitted up to 6%

Rate and Term Refinance

- A Rate and Term Refinance transaction is when the new loan amount is limited to the payoff of a present mortgage for the purpose of changing the interest rate and/or term of mortgage only with no additional cash or advancing of new money on the loan unless it is below the limited Cash-Out amount.
- The seasoned non-first lien mortgage is (1) a purchase money mortgage or (2) a closed end mortgage or HELOC mortgage not having any draws greater than $5,000 in the past twelve (12) months
  - Withdrawal activity must be documented with a transaction history from the HELOC
- Limited cash to the borrower must not exceed the greater of $5,000 or 2% of the principal amount of the new mortgage to be considered a Rate / Term refinance
- The LTV / CLTV will be based off of the appraised value. Loan must be used to pay off existing lien on the Subject mortgage and cash to the borrower must not exceed the greater of $5,000 or 2% of the principal amount of the new mortgage
- Properties that have been listed for sale by the borrower within the past six (6) months from the note date will be considered on a case-by-case basis and will require an exception approval, subject to LLPA.
  - Submit Exception Request Form to Exceptions@loanhouseTPO.com
- The rate / term refinance of a construction loan is eligible with the following conditions:
  - If the lot was acquired twelve (12) or more months before applying for the subject loan, the LTV / CLTV is based on the current appraised value of the property
  - If the lot was acquired less than twelve (12) months before applying for the construction financing, the LTV / CLTV is based on the lesser of the current appraised value of the property and the total acquisition costs
- Refinance of a previous Cash-Out seasoned < 1 year will be considered Cash-Out refinance
- Refinancing of a Land Contract is considered a purchase and LTV / CLTV should be calculated using purchase price

Cash-Out Refinance

- A Cash-Out Refinance transaction allows the borrower to pay off the existing mortgage by obtaining new financing secured by the same property or allows the property owner to obtain a mortgage on a property that is currently owned free and clear. The borrower can receive funds at closing if they do not exceed the program requirements
- To be eligible for a Cash-Out Refinance the borrower must have owned the property for a minimum of six (6) months prior to the note date. For DSCR Cash-Out seasoning and guidance, reference the "Simple Access DSCR" on page 43 section below
- Properties listed for sale by the borrower within the last twelve (12) months are not eligible
- If the property is owned less than twelve (12) months but greater than six (6) months at the time of note date, the maximum LTV / CLTV for the transaction will be based on the lesser of the original purchase price plus fully documented improvements such as invoices and/or confirmed by the appraiser, or current appraised value. The prior settlement statement will be required for proof of purchase price
- Refinance of a previous Cash-Out seasoned < 1 year will be considered Cash-Out refinance
- Refinancing of a Land Contract is considered a purchase and LTV / CLTV is calculated using purchase price
- A Texas 50(a)(6) loan is a non-purchase money mortgage (potentially including a refinance of a prior home equity loan) in which the borrower takes equity out of a homestead property in Texas. To be valid, these home equity loans must comply with all requirements listed in Section Article XVI, Section 50(a)(6) of the Texas Constitution. Sellers should not rely on Loanhouse's categorization of a loan as a "Cash-Out Refinance" for purposes of determining whether compliance with the Texas Constitution is required. Sellers should instead consult with their own legal or compliance resources to determine the applicability of Article XVI, Section 50(a)(6) to a specific transaction

NOTE: Cash-Out includes funds received at closing as cash back and any applicable debts paid off outside the original non-purchase money transaction.

Cash Out Limits

- **Simple Access: Full Doc & Alt Doc**
  - LTV > 60% - Maximum Cash-Out $750,000
  - LTV ≤ 60% - Maximum Cash-Out Unlimited
- **Simple Access: DSCR**
  - LTV > 60% - Maximum Cash-Out $500,000
  - LTV ≤ 60% - Maximum Cash-Out Unlimited
  - Foreign National (regardless of LTV) – Maximum Cash-Out $250,000

Property Buyouts and Inherited Properties

- Refinances of inherited properties and properties legally awarded to the borrower, including DSCR loans, are allowed. This includes divorce, separation, and dissolution of a domestic partnership. Seasoning requirements do not apply, and the following guides must be met:
  - A written agreement signed by all parties stating the terms of the buyout and property transfer must be obtained
  - Equity owners must be paid through subject loan's settlement

- Subject property has cleared probate, and property is vested in the borrower's name
- Current appraised value is used to determine loan-to-value

Subordinate Financing

- New subordinate financing (institutional) allowed for purchase transactions only
- Primary residences only
- If a HELOC is present the LTV / CLTV must be calculated by dividing the sum of the original loan amount of the first mortgage, the line amount of the HELOC (whether or not there have been any draws), and the unpaid principal balance of all other subordinate financing by the lower of the property's sales price or appraised value
- All subordinate loan obligations must be verified and considered when calculating the borrower's DTI
- If the subordinate financing is a HELOC secured by the subject property, monthly payments equal to the minimum payment required under the HELOC terms considering all draws made on or before closing of the subject transaction
- For closed-end fixed rate, fully amortizing simultaneous loans, the qualifying payment is the monthly payment
- Interest Only not permitted
- Existing subordination is permitted on refinances

Flip Transaction

On a purchase transaction when the home is being resold within 180 days of seller's purchase date, the transaction is considered a flip (based on the day the borrower signs an initial purchase agreement)

- Current purchase transaction must be listed with a realtor on Multiple Listing Services
- Bank owned REO and corporate relocations are eligible and not considered a flip transaction
- Second Appraisal is required for the following:
  - Higher Priced Mortgage Loans
  - >10% increase in sales price if seller acquired the property in the past 90 days
  - >20% increase in sales price if seller acquired the property in the past 91-180 days
- Flip transactions are subject to the following requirements:
  - All transactions must be arm's length, with no identity of interest between the buyer and property seller or other parties participating in the sales transaction
  - No pattern of previous flipping activity may exist in the last twelve (12) months. Exceptions to ownership transfers may include newly constructed properties, sales by government agencies, properties inherited or acquired through divorce, and sales by the holder of a defaulted loan
  - The property was marketed openly and fairly, through a multiple listing service, auction, for sale by owner offering (documented) or developer marketing
  - No assignments of the contract to another buyer
- If the property is being purchased for more than 5% above the appraised value:
  - a signed letter of acknowledgement from the borrower must be obtained

- An additional appraisal product is required, reference the "Third Party Appraisal Review" on page 52 for details.

Flip transactions must comply with the HPML appraisal rules in Regulation Z. The full Reg Z revisions can be found at: https://www.consumerfinance.gov/rules-policy/final-rules/appraisals-higher-priced-mortgage-loans/

Delayed Financing

- Delayed purchase financing is available when a property was purchased by a borrower using cash, within one hundred eight days (180) from the date of purchase to the new mortgage note date
  - The original purchase transaction must be an arm's length transaction
  - The source of funds for the original purchase transaction must be documented (bank statements, personal loan documents, HELOC from another property as an example)
  - The maximum LTV / CLTV for the transaction will be based on the lower of the current appraised value of the subject or the purchase price plus any of the fully documented improvements such as invoices and/or receipts for work performed and confirmed by the appraiser
  - The preliminary title information must confirm that there are no existing liens on the property
  - The loan is considered a Cash-Out transaction. Cash-Out loan, LTV and other limitations apply

Temporary Interest Rate Buydowns

- Not permitted

Ineligible Transactions

- Construction Loans
- Builder Bailout and Model leasebacks
- Conversion Loans
- Rent Credits
- Non-Arm's Length
- Lease Option

Credit Eligibility

Credit Report Information

- A tri-merged in file credit report from all three repositories is required
- A written explanation for all inquiries within ninety (90) days of application is required disclosing no new debt
- Sellers are required to document that the borrower did not incur any new debt from the time the credit report was pulled to the time of loan closing.
    - On all loans, Seller must either:
        - Leverage Undisclosed Debt Monitoring (UDM) prior to closing, OR
        - Pull a credit refresh within 10 business days of the Note date.
    - DTI should be recalculated based on any new debt
    - Any new credit scores must be reviewed for qualifications

Housing History

- Twelve (12) months housing history is required.
- Twelve (12) month mortgage / housing history includes all occupancy types – Primary, Second Home and Investment Properties. If primary housing is documented as free and clear, no exception is needed
- If the subject property has delinquent taxes less than one year from note date, this will be considered on a case-by-case basis and will require an exception approval, subject to LLPA.
    - Submit Exception Request Form to Exceptions@loanhouseTPO.com
- For DSCR a credit report or VOM / VOR is required on the subject property (if a refinance) and the borrower's primary residence only
- All mortgages and rental payments should be current at time of closing. If the credit report or VOR / VOM reflects a past-due status, updated documentation is required to verify the account is current
    - This includes loans qualifying through DSCR even if the account showing the delinquency is not the subject or primary residence
- Housing history evidenced by twelve (12) months proof of payment via canceled checks, bank debits or institutional VOR
    - Private Party VORs / VOMs will be considered on a case-by-case basis and will require an exception approval, subject to an LLPA.
        - Submit Exception Request Form to Exceptions@loanhouseTPO.com
    - LOE or rent-free letter is required when a twelve (12) month housing history is not applicable.
        - LOE must come from the leaseholder or the owner of the property
    - If the borrower is a FTHB, rent-free is permitted with no credit exceptions
- Past due balloon payment loan will be considered a delinquency (1x30) and not a housing event, but only within one hundred eighty (180) days of maturity

Credit Scores

- For Full Doc & Alt Doc: Representative Credit Score of the Primary Wage Earner is used to qualify
  - In the event there are multiple borrowers that earn identical income, the Representative Credit Score will be the lower score of the applicants
- For DSCR: In cases of equal ownership percentage, use the lower of the two scores
  - Use Highest percentage ownership score for qualifying, even if lower. Highest percentage owner must have a valid score from at least two (2) of the following three (3) agencies: Experian, Trans Union and Equifax
  - In the event where ownership percentage of additional borrower is unknown, the lower score must be used for qualifying
- Credit rescores are not allowed except in the event of a disputed item or valid error. Documentation must be provided to support the reason that a credit rescore was performed

Credit Report Requirements

Tradelines

- Each borrower's credit profile must include a minimum of two (2) trade lines within the last twenty-four (24) months that show a twelve (12) month history, or a combined credit profile between borrower and co- borrower with a minimum of three (3) tradelines
- Tradeline activity is not required; can be opened or closed. Examples of unacceptable tradelines include loans in a deferment period, collection or charged-off accounts, accounts discharged through bankruptcy and authorized user accounts
- Current housing not reporting on credit can be considered an open trade if supported by bank records (cancelled checks / debits)
- Borrower(s) not using income to qualify are not required to meet the minimum tradeline requirements listed above
  - This does not pertain to DSCR loans, where the borrower(s) or guarantor(s) must adhere the tradeline requirements above
- Authorized user accounts must be used to calculate DTI ratio but will not be included in the number of tradelines.

Credit Events

- Prior Bankruptcies (Chapter 7, 11, 13)
  - Full/Alt Doc Loans: 4+ years seasoning required
  - Simple Access DSCR Loans: 3+ years seasoning required
  - Multiple bankruptcies are not permitted
- Foreclosure, Short Sale, Deed-in-Lieu, Loan Modification (due to default), Notice of Default, Lis Pendens, and 120+ Days Delinquency
  - Full/Alt Doc Loans: 4+ years seasoning required
  - Simple Access DSCR Loans: 3+ years seasoning required

- Borrowers currently enrolled in credit counseling or debt management plans are not permitted
- All Judgments or liens affecting title must be paid
- Non-title charge-offs and collections within three (3) years and exceeding $5000 (individually or aggregate) must be paid
- Medical collections less than $15,000 are not required to be paid
- All past due accounts must be brought current prior to closing
- Disputed accounts require an LOE
- IRS tax payment plans approved by the IRS are permitted if current and do not carry a lien on any property
- All borrowers must be current on mortgage or rent at loan application
- All derogatory revolving and installment accounts greater than sixty (60) days within four (4) years of closing require a full explanation
- Delinquent credit belonging to ex-spouse can be excluded if late payments occurred after the divorce / separation, and divorce decree / separation agreement indicates derogatory accounts belong solely to the ex-spouse
- Security freeze – Credit reports may not contain a security freeze and should be resolved prior to an underwriting decision. Unfrozen reports after the date of the original credit report require a new tri-merged report
- Defaulted timeshares – Timeshares including delinquencies are treated as installment loans and not a housing event

Income Documentation

Unless otherwise noted, all borrowers should have a two-(2) year income history from employment or other allowable sources. The expectation is that income year over year is stable or shows a trend with a gradual increase. This type of income should be averaged for the borrower(s) gross monthly income used to qualify. A reasonable expectation should be present that the borrower(s) source(s) of income will continue for the foreseeable future.

In cases where a borrower(s) income is declining or shows unusual or unexpected fluctuation, careful consideration must be given to the income being reviewed and the reason for the decline or fluctuation. Proper discretion must be exercised to determine the extent or probability of impairment of the borrower's income and earning ability moving forward. Conservatively, the lesser income should be used when a declining situation is present. A letter of explanation is required from the borrower(s) to support the circumstances. Borrowers that show continued declining income without a reasonable explanation or proof that the trend will not continue are not eligible to use that income for qualification.

Combined Income Documentation Scenarios

- Income documented through Alt Doc programs may be combined with other income sources that are documented as Full Documentation but not associated with self-employment, such as a spouse employed as a wage earner
- When wage income is combined with Alternative Documentation, a tax return is not required as this would invalidate the bank statements. Form 4506-C is still required; however, Box 8 should be checked to obtain a transcript of the W- 2 earnings only
- Combined income documentation types are intended for separate borrowers on the same loan (spouses, for example). Cases of combined income types for the same borrower are generally not allowed.

Full Documentation (2 years documentation)

Wage Earners

- Most recent paystub (most recent thirty (30) day period) including year-to-date earnings (YTD must cover minimum of thirty (30) days) and
- Two (2) years IRS 1040s or W2's and a Written Verification of Employment (if needed for the analysis of overtime, bonus, or commission) and
- IRS 1040s are recommended when using other sources of income to qualify i.e., interest dividends, capital gains, note receivable, trust income etc. and
- 4506-C W2 transcripts or 4506-C transcripts (If 1040 transcripts are provided, W2 transcripts are not required)

    - In the case where taxes have been filed and the wage transcripts are not available from the IRS, the IRS response to the request must reflect "No Record Found" and be present in the loan file
    - Must document that taxes have been filed via evidence of e-filing, tax refund, or proof of payment
    - Evidence of any IRS filing extensions must also be present in the loan file, and
- Verbal Verification of Employment (VVOE):
    - Must be completed within ten (10) calendar days of the closing date
    - VVOE should include name of contact at place of employment, phone number and title along with company name, address and borrower's job description and title
    - A borrower who is no longer employed at the same employer listed on the initial 1003 will require an exception prior to purchase
        - Submit Exception Request Form to Exceptions@loanhouseTPO.com

Self-Employed Borrowers

- A borrower is considered self-employed with 25% or more ownership interest in a business. The business may be a sole proprietorship, general partnership, limited partnership, corporation, or S-corporation.
- Two (2) years personal and business tax returns (including all schedules and K-1's) plus YTD P&L from any businesses being used for qualification where the borrower has 25% or more ownership interest
- Borrower(s) qualifying with 1099s must provide two (2) years 1099s
    - 4506-C W2 transcripts or 4506-C 1099 transcripts (If 1040 transcripts are provided, W2/1099 transcripts are not required)
    - Generally limited to single employer and requires employer confirmation of no borrower job related expenses
    - If a borrower is not able to provide confirmation of no job-related expenses, a 10% Expense Factor will be applied
    - In scenarios where the borrower receives multiple 1099's, the borrower must be in an industry where this is a common occurrence (entertainment, medical contractor, etc.)
    - Most recent check stub (or three (3) months bank statements for 1099) including year-to-date earnings (YTD must cover minimum of thirty (30) days)
- 1040 tax transcripts/1099 transcripts
    - Business tax transcripts not required if net business income is validated on the borrower's 1040s
    - In the case where taxes have been filed and the tax transcripts and/or 1099 transcripts are not available from the IRS, the IRS response to the request must reflect "No Record Found" and be present in the loan file
    - Must document, that taxes have been filed via evidence of e-filing, tax refund, or proof of payment
    - Evidence of any IRS filing extensions must also be present in the loan file
- Independent verification of the business through a third party such as a CPA, regulatory agency, or applicable licensing bureau
- Verification of business existence and that the business is fully operational / active required within ten (10) calendar days of closing
- Ownership percentage must be documented via CPA letter, Operating Agreement, or equivalent
- Self-employed paying themselves W-2 or K-1

    - The ordinary income from the borrower's business multiplied by the borrower's ownership % should be used to qualify along with any W-2 wages that they pay themselves. Double-counting is not allowed.
- Declining income – Self-employed
    - Declining income of the last two (2) years may be utilized for qualifying with signed letter of explanation from the borrower. Lower of the two (2) years would then be used to qualify unless the income has stabilized over the most recent six (6) months

Full Documentation - Streamline (1 year documentation)

Wage Earners

- One (1) year IRS 1040 or W2
- Most recent paystub including year-to-date earnings (YTD must cover minimum of thirty (30) days)
- 4506-C W2 transcripts In the case where taxes have been filed and the wage transcripts are not available from the IRS, the IRS response to the request must reflect "No Record Found" and be present in the loan file
    - Must document that taxes have been filed via evidence of e-filing, tax refund, or proof of payment
    - Evidence of any IRS filing extensions must also be present in the loan file
- Verbal Verification of Employment (VVOE)
    - Must be completed within ten (10) calendar days of the closing date
    - VVOE should include name of contact at place of employment, phone number and title along with company name, address and borrower's job description and title
    - A borrower who is no longer employed at the same employer listed on the initial 1003 will not be eligible for purchase by Loanhouse
    -

Self-Employed Borrowers

- Borrowers must have at least 25% ownership in the business to qualify
- One year personal and business tax (including all schedules and K-1's) plus YTD P&L from any businesses being used for qualification where the borrower has 25% or more ownership interest
- Not permitted as qualifying income – interest, dividends, capital gains, etc.
- Borrower(s) qualifying with 1099s must provide one (1) year 1099s
    - 4506-C 1099 transcripts (If 1040 transcripts are provided, 1099 transcripts are not required)
    - Generally limited to single employer and requires employer confirmation of no borrower job related expense
    - If a borrower is not able to provide confirmation of no job-related expenses, a 10% Expense Factor will be applied
    - In scenarios where the borrower receives multiple 1099's, the borrower must be in an industry where this is a common occurrence (entertainment, medical contractor, etc.)
    - Most recent check stub (or three (3) months bank statements for 1099) including year-to-date earnings (YTD must cover minimum of thirty (30) days)

- If the P&L covers more than nine (9) months, three (3) month bank statements are required to validate continued positive cash flow of the borrower's business. Additional bank statements may be required if deemed necessary
- Borrower will be qualified on the lower of:
  - Monthly average of the net income from the tax return and P&L or
  - Monthly net income from tax return multiplied by 115%
- All borrowers must also provide evidence that business has been in existence for at two (2) least years via CPA / Tax preparer letter, confirmation from regulatory or state agency, or applicable licensing bureau
- Verification of business existence and that the business is fully operational / active required within ten (10) calendar days of closing
- Self-employed borrower income in a licensed profession (i.e., Medical, Legal, Accounting) will be considered from a business that has been in existence for less than two (2) years, but greater than one (1) year if the borrower has at least two (2) years of documented previous experience in the same profession, or evidence of formal education in a related field
- IRS form 1040 personal and business 4506-C tax transcripts required for the tax return year used for qualifying
- 1040 tax transcripts/1099 transcripts
  - Business tax transcripts not required if net business income is validated on the borrower's 1040s
  - In the case where taxes have been filed and the tax transcripts and/or 1099 transcripts are not available from the IRS, the IRS response to the request must reflect "No Record Found" and be present in the loan file
  -

Alt Documentation - Bank Statement (Alt Doc)

- Any loan file using qualifying income from Bank Statements with evidence of tax returns or tax transcripts in the origination file will be ineligible for sale to Loanhouse
- Borrowers paid 1099 from a single company are not eligible for Bank Statement qualification and must qualify as Full Doc
- Borrowers who are using more than three (3) businesses to qualify must use Personal Bank Statement option

Documentation Requirements

- Twelve (12) or twenty-four (24) months consecutive, bank statements required
- Bank statements must be most recent available at time of application and must be consecutive
- Any loan submitted with less than twelve (12) months of consecutive bank statements will not be eligible for purchase by Loanhouse
- Business Narrative
  - Business narrative must include details relating to the size / score and operating profile of the business, including the following:
  - Description of Business / Business Profile
  - Location and Associated Rent
  - Number of Employees / Contractors

    - Estimated Cost of Goods Sold if any
    - Materials / Trucks / Equipment
    - Commercial or Retail Client Base
- An internet search of the business is required with documentation to be included in the credit file to support the Business Narrative. Underwriter certification (or notation on the 1008) if there are no results when attempting an internet search
- Verification of business existence and that the business is fully operational / active required within ten (10) calendar days of closing
- Multiple bank accounts may be used
- Co-mingling:
    - Co-mingling of personal and business accounts is not permitted in personal bank accounts. Evidence of comingling will require the loan to be submitted / qualified as a business bank statement loan
    - Two (2) months of business bank statements must be provided to validate borrower utilizes separate banking accounts

Personal Bank Statement

Documentation Analysis

- Any deposits into a personal account deemed to derive from a source other than the business (rents, SSI, joint account holder wage income, IRS refunds) must be excluded from the analysis
- Unusually large deposits exceeding 50% of monthly income (as defined by Fannie Mae) into bank accounts must be explained via LOE and must be consistent with the business profile. If LOE is sufficient, no sourcing required
- Two (2) months of business bank statements are required. These statements should evidence activity to support business operations and reflect transfers to the personal account
    - A borrower who only utilizes a personal account for business activity and does not have an associated business account is eligible to qualify through Section 8.4.2 (Business Bank Statements)
    - Co-mingling of personal and business receipts is not permitted
- If bank statements provided reflect payments being made on obligations not listed on the credit report, a thorough analysis must be performed and LOE provided from the borrower
- Declining Income may require a LOE

Business Requirements

- Validation of a minimum of two (2) years existence of the business from one of the following:
    - Business License
    - Letter from Tax Preparer
    - Secretary of State Filing or equivalent
- Ownership percentage must not be less than 25% and documented via CPA letter, Operating Agreement, or equivalent
- Borrowers who own more than three (3) businesses must use personal bank statements option

Qualifying Income

- For personal bank statement documentation, it is the lower of the following:
  - Personal bank statement average (total eligible deposits / 12 or 24 months)
  - If a borrower has declining income and is qualifying with twenty-four (24) months of bank statements, the last twelve (12) months of income will be utilized to qualify
  - Monthly income disclosed on the initial signed 1003

Business Bank Statement

Documentation Analysis

- Transfers from other bank accounts into the business bank accounts will require conclusive evidence that the source of transfer is business related income
- Large deposits exceeding 50% of monthly income (as defined by Fannie Mae) into bank accounts must be explained via LOE and must be consistent with the business profile. If LOE is sufficient, no sourcing required
- Declining Income may require an LOE
- NSFs may require a borrower LOE documenting they are not due to financial mishandling or insufficient income. A maximum of 3 NSF occurrences within a twelve-month period are allowed. If there are zero occurrences in the most recent three-month period, up to 6 occurrences in the most recent twelve-month period are acceptable. NSFs should be covered with deposits shortly after they are incurred.
- Expense line items that can be added back to the business net income include depreciation, depletion, amortization, casualty losses, and other losses or expenses that are not consistent and recurring

Business Requirements

- Validation of a minimum of two (2) years existence of the business from one of the following:
  - Business License
  - Letter from Tax Preparer
  - Secretary of State Filing or equivalent
- Ownership percentage must be documented via CPA letter, Operating Agreement, or equivalent
- Minimum ≥50% business ownership required
- Borrowers utilizing business bank statements that own ≥ 50% but < 100% of a business will be qualified at the net income multiplied by their ownership percentage

Income Qualification (Three Options)

Option 1: Expense Ratio

- Percentage of gross deposits [twelve (12) or twenty-four (24) months] using expense ratio factor based on business type and number of employees

- Qualifying income will be the lower of the Expense Ratio formula or monthly income disclosed on the initial signed 1003
- Expense ratio should be reasonable for the profession
- Qualifying income should be multiplied by the borrowers documented business ownership
- If a borrower has declining income and is qualifying with twenty-four (24) months of business bank statements, the last twelve (12) months of income will be utilized to qualify
- Example: Borrower with $25,000 monthly average deposits multiplied by a 50% expense factor = $12.5k in qualifying income

Service Based Business (Offers Services)	0	1-5	>5
Examples of Service Business:	15% Expense Factor	30% Expense Factor	50% Expense Factor
Consulting, Accounting, Legal, Therapy, Counseling, Financial Planning, Insurance, Information Technology			
Product Based Business (Sells Goods)	**0**	**1-5**	**>5**
Examples of Product Business:	25% Expense Factor	50% Expense Factor	85% Expense Factor
Retail, Food Services, Restaurant, Manufacturing, Contracting, Construction			

Option 2: 3rd Party Profit & Loss Statement

- Qualifying income is the lower of the Profit & Loss (P&L) net income from the validated third-party prepared P&L or monthly income disclosed on the initial signed 1003
- Businesses qualifying with a P&L statement showing less than a 15% expense ratio will be limited to a 15% ratio. Expense ratio should be reasonable for the profession
- Borrower prepared P&L will not be permitted under any circumstances
- Business Bank Statements are used to validate third-party prepared P&L. Gross revenue listed on P&L must be within +/-10% of the total qualified deposits
- If a borrower has declining income and is qualifying with twenty-four (24) months of business bank statements, the last twelve (12) months of income will be utilized to qualify
- Following documentation is required:
  - Twelve (12) or twenty-four (24) months complete business bank statements from the same account (transaction history print outs are not acceptable)
  - Business bank accounts, personal bank accounts addressed to a DBA or personal accounts with evidence of business expenses can be used for qualification
  - P&L statement must be prepared by a Tax Professional
    - Tax Professional defined as a Certified Public Accountant (CPA), Tax Attorney, Enrolled Agent (EA), California Tax Educational Council member (CTEC) or Paid Tax Professional (PTIN)
  - P&L statement must cover the same months as the bank statements submitted
  - P&L must be signed by the borrower and the Tax Professional

    - Tax Professional must attest that they have audited the business financial statements or reviewed working papers provided by the borrower
    - Tax Professional must attest that they are not related to the borrower or associated with the borrower's business
    - Tax Professional must have filed the borrower's most recent two (2) years business tax returns

Option 3: 3rd Party Expense Ratio

- Qualifying income is the lower of the 3rd Party Prepared Expense Ratio net income or monthly income disclosed on the initial 1003
- To determine net income, multiple eligible business deposits by the following:
    - (100% minus the Expense Ratio) / 12 or 24 months)
- 3rd Party Prepared Expense Ratio floored at 15%
- If a borrower has declining income and is qualifying with twenty-four (24) months of business bank statements, the last twelve (12) months of income will be utilized to qualify
- The Expense Statement must be prepared and signed by a third-party Tax Professional specifying business expense as a percentage of the gross annual sales / revenue
- Self-employed borrowers who have filed their own business tax returns are ineligible
- Following documentation is required:
    - Twelve (12) or twenty-four (24) months complete business bank statements from the same account (transaction history print outs are not acceptable)
    - Business bank accounts, personal bank accounts addressed to a DBA or personal accounts with evidence of business expenses can be used for qualification
    - Tax Professional must attest that they have audited the business financial statements or reviewed working papers provided by the borrower
    - Tax Professional must certify that the Expense Statement represents an accurate summary of the applicable cash expenses of the business
    - Tax Professional must attest that they are not related to the borrower or associated with the borrower's business
    - Tax Professional must have filed the borrower's most recent two (2) years business tax returns
    - Tax Professional license must be verified and signed

Alt Documentation - 12 Month Profit & Loss (P&L)

Eligibility

- Max 80% LTV
- Self-employed borrower(s) only
    - Borrower(s) who file their own tax returns are not eligible
- Minimum of two (2) years self-employment in the current profession
    - Validation of a minimum of two (2) years existence of the business from one of the following: Business License, Letter from Tax Preparer, Secretary of State Filing or equivalent
- Self-Employed defined as borrower owning >=50% ownership of respective business

- Ownership percentage must be documented via Certified Public Account (CPA) / IRS Enrolled Agent (EA) / California Tax Education Council (CTEC) letter, Operating Agreement or equivalent
- The CPA / EA / CTEC preparing the P&L must have filed the borrower's most recent business tax returns

Documentation Requirements

- Most recent 12-month Profit & Loss statement. P&L end date must be less than sixty (60) days old at closing
- All P&L statements must be completed by an independent CPA / EA / CTEC
- The CPA / EA / CTEC prepared P&L must be signed by both the borrower and CPA / EA / CTEC
- CPA / EA / CTEC must provide attestation that they prepared borrower's tax returns and that are not related to the borrower or associated with borrower or borrower's business
- The CPA / EA / CTEC must attest that they have performed either the following functions:
  - Audited the business financial statements
  - Reviewed working papers provided by the borrower
- Credit file must contain documentation that the CPA / CTEC license is verified and active. A screen shot of the IRS web site for an IRS Enrolled Agent (EA) is acceptable
- Borrower narrative on nature of business required
- An internet search of the business is required with documentation to be included in the credit file to support existence of the business
- Employment verification documentation must be consistent with information on the loan application and borrower's credit report
- Verification of business existence and that the business is fully operational / active required within ten (10) calendar days of closing

Qualifying Income

- Qualifying income is the lower of the 12 Month P&L statement or monthly income disclosed on the initial signed 1003

Supplemental Income Sources

- Joint Accounts – A joint personal account with a non-borrowing spouse or domestic partner can be used for qualifying as follows:
  - If not contributing income / deposits, it must be validated by a borrower affidavit
  - If contributing income / deposits, source must be clearly identified (direct deposit, SSI, trust income) and amounts must be subtracted from the analysis
  - Relationship letter must be present in file
- Component Sources of Income – A borrower who has a self-employed business and receives income from other sources is eligible for the bank statement program. Income sources include but are not limited to rental properties, trust and investment, alimony, etc. These income sources must be separately documented on the 1003 and must be separately supported by bank statement deposits

Rental Income

- Reported on tax returns
  - Schedule E net income should be used for loans using tax returns to qualify
  - 100% ownership is not required. Allowed income will be calculated based on ownership percentage and 100% of PITIA must be used regardless of ownership percentage
- Not reported on most recent tax returns due to recent purchase / loans qualifying with alternative documentation
  - 100% ownership is not required. Allowed income will be calculated based on ownership percentage and 100% of PITIA must be used regardless of ownership percentage
  - Refinance Transaction
    - Lease agreement and two (2) months cancelled checks to show proof of rental payments, or if subject is recently rented, a copy of two of the following will be acceptable (first month's rent, last month's rent, security deposit). 75% utilized for qualifying income
    - Evidence that rent is market rate (free online source is permitted)
  - Purchase transactions
    - Rental income identified on the 1007 rental schedule for 75% utilized for qualifying income
    - If the existing lease from seller is transferring to borrower, the lease that predates the mortgage could have a superior claim to the mortgage. The seller is responsible for ensuring clear title and first lien enforceability
- Short Term / Variable Rental Income (if STR reported on tax returns, follow Reported on tax returns guidance)
  - Permitted for both purchase and refinance transactions. All Short Term Rental income must be deemed common and typical for the area per the appraisal and/or property location, and permitted in accordance with local ordinances
  - On refinances, gross rent to be determined by lower of the market rent disclosed on the appraisal OR 12- month short term rental history via AirBnb, AirDNA, VRBO or HomeAway (12 months required for Refinance Only)
  - On purchases, 75% of market rent will be used as income if it is supported by the twelve (12) month average
  - Short term rental history to be verified from a third-party property management provider. Information must contain property address / ID specific to subject
  - Not permitted on primary residence SFRs
  - Long term tenancy Income is limited to 125% of 1007 market rents schedule

Trust Income

- Income from trusts may be used if constant payments will continue for at least the first three (3) years (or 5) of the mortgage term as evidenced by trust income documentation. 5 years required if income source is >50% of loans total qualifying income
- *See* "Ancillary Non-Employment Income – Continuance" on page 41 for limits on adjusting current distributions and continuance.

- Trust Agreement required confirming amount, distribution frequency, and duration of payments

Alimony Income / Child Support

- Final Divorce decree or legal separation agreement required
- Must provide payment evidence of six (6) months via canceled checks, deposit slips, or bank records

Note Receivable Income

- Copy of the note confirming amount and length of payment
- Must provide payment evidence of twelve (12) months via canceled checks, deposit slips, or bank records
- Verify that the income can be expected to continue for a minimum of three years from the date of the mortgage note

Royalty Payment Income

- Royalty contract, agreement, or statement confirming amount, frequency, and duration of the income – must document a three (3) year continuance
- Must provide payment evidence of twelve (12) months via canceled checks or bank records / deposits

Retirement Income

- The following types of income documentation is required:
  - Copy of award letter or letters from the organizations providing the income and
  - Most recent two (2) months bank statements showing deposit of funds

Self Employed / Wage Earner Combination for Joint Borrowers

- Joint borrowers with one (1) wage earner and one (1) self-employed business owner can verify income separately, with the self-employed borrower utilizing bank statements or 12 Month P&L and the wage earner providing pay stubs / W-2s or WVOE
  - The wage earner 4506-C should include W-2 transcripts only
  - Combination scenario must be qualified and priced to the income verification with the highest loan level pricing adjustments (LLPA)

Additional Employment & Income

Work History

- A minimum of six (6) months of employment is required unless recently graduated from school or completion of formal training

Employment Gaps

- Borrower should explain any employment gaps exceeding thirty (30) days in the last twelve (12) months and sixty (60) days in the last thirteen to twenty-four (13-24) months

Recently transitioned W-2 to 1099

- Borrowers recently transitioned from W2 to 1099 and contracted by the same employer in the same position do not require two (2) years 1099s if the lender provides documentation the borrower will not be responsible for additional expenses, i.e., contract
- Borrowers who remained in the same industry, but transitioned from W2 to 1099 with a different company must be in current position for at least one (1) year

Ancillary Non-Employment Income – Continuance

- Borrowers of retirement age do not require proof of continuance if income received from corporate, government or military retirement or pension
- Alimony, child support requires proof of three (3) or five (5) year continuance (5 years if income source is > 50% of loans total qualifying income).
- IRA / Discretionary Retirement Account Distributions / Trust Distribution – Continuance
- IRA or Trust distributions cannot be set up post application date unless the borrower is required to start withdrawing based on age. In such cases, 125% of the required minimum amount can be used to qualify
    - Distributions must have been received for prior six (6) months to application to be considered as eligible income. Distributions that have been received for six (6) months or more can be adjusted with a letter from the plan administrator validating the increase. Allowable increases of distribution amount are limited to 125% of previously received distributions. Continuance for 5 years at the proposed monthly amount is required if distributions represent > 50% of the loans total qualifying income (please note this overlay to Fannie Mae).
    - One of the following types of income documentation is required:
        - Copy of award letter or letters from the organizations providing the income
        - Most recent personal income tax return with all schedules
        - Most recent W2 or 1099
        - Most recent two (2) months bank statements showing deposit of funds

Restricted Stock (RSUs)

- Loanhouse will only consider restricted stock that was awarded in prior two (2) years and became unrestricted (vested) in the current year. The Vesting Schedule must indicate the income will continue for a minimum of three (3) years at a similar level to the prior two (2) years
- Continuance is based on the vesting schedule using a stock price based on the 52-week low for the most recent twelve (12) months reporting at the time of closing. A two (2) year average of prior income received the RSU's, or stock option will be used

- Depending on how distribution is made (as shares or its cash equivalent), examples on how to calculate are below:
- Shares: If 200 vested shares were distributed (pre-tax) in the past two years and the 52-week low stock price as of the Application received date is $10, multiply 200 x $10 then divide by 24= $83.33 monthly income. If distributions do not follow a monthly cadence, use the correct figure that equates to 2 years
- Cash equivalent: Use the total dollar amount distributed (pre-tax) from the cash equivalent of vested shares in the past two years and divide by 24. If distributions do not follow a monthly cadence, use the correct figure that equates to 2 years
- The following documentation is required: copy of the vesting schedule, most recent W2 and pay stub
- Stock must be public and listed on major stock exchange

Averaging of bonus / commission, 2 years

- A two (2) year average is required, exceptions can be considered with one-year minimum history of receipt is required and must be likely to continue. Employer to document likelihood of continuance.
    - Submit Exception Request Form to Exceptions@loanhouseTPO.com

Secondary Employment

- Second job income considered stable if received for two (2) years and likely to continue. Must be working both jobs simultaneously, for consideration.

Foreign Sources of Income

- Foreign income is income earned by a borrower employed by a foreign government / company and not paid in US dollars. Acceptable utilization if the following criteria satisfied:
- Two (2) years US Tax returns reflect the foreign income
- Income is translated to US dollars
- Income documentation, stability and continuance requirements are met
- Income from countries under OFAC sanctions not permissible

Grossing up nontaxable income

- Non-taxable income to be grossed up 125%

Two-year business validation – Name change / re-organization

- Considered continuous if business name changes within last two (2) years or restructure (i.e., from sole proprietor to LLC, S-Corp, etc.). Not applicable for Simple Access DSCR program

Simple Access DSCR

Loanhouse's Simple Access DSCR Program is intended for professional investors with more than 12 months' experience.

    - First Time Investors are allowed provided:
        - DSCR is >1.0
        - Credit score is >700
        - There are no exceptions on the file
        - First Time Investors MAY NOT be a First Time Homebuyer
- Derogatory housing event history
    - (>=36 months clean) and mortgage history
    - (0x30x12) seeking a business purpose, non-owner-occupied loan
- Borrowers will qualify with property income (Debt Service Coverage Ratio)
    - DSCR ≥ 1.00 – Minimum FICO is 720
    - DSCR ≥ 0.75 – Minimum FICO is 700
    - DSCR < 0.75 – Minimum FICO is 660
- Debt Service Coverage Ratio Calculation
    - Amortizing DSCR = Gross Rental Income / PITIA
    - Interest Only DSCR = Gross Rental Income / ITIA
- Interest Only acceptable with restrictions
    - Interest-Only Restrictions:
        - DSCR ≥ 1.00: Minimum FICO 700, Maximum 75% LTV
        - DSCR ≥ 0.75: Minimum FICO 700, Maximum 70% LTV
        - DSCR <.75 : Interest-Only Not Permissible
- Business Purpose Only - No personal income to qualify
- Personal recourse required for all entity members.
    - No additional borrowers are allowed to join an entity on Title or on the subject loan
- Maximum Loan Size of $2.0M
- Maximum LTV of 80%
- Minimum FICO of 660
- 3 months minimum reserves
- No requirement for additional reserves for other financed properties, Subject Property reserves only
- Cash-Out can be used as reserves
- Housing history verified on subject property and borrower's primary residence only
- Twelve (12) months housing history is required

Simple Access DSCR Calculation

- A Debt Service Coverage Ratio (DSCR) ratio is required. DSCR = Gross Rental Income / PITIA or DSCR = Gross Rental Income / ITIA for Interest Only loans
- DSCR loans will be qualified at original Note Rate, regardless of ARM or Fixed

- Gross Income will be calculated using the lower of the A) executed lease agreement or B) market rent from applicable Appraisal
- If executed lease agreement reflects a higher monthly rent than Appraisal, it may be used in the calculation with sufficient evidence of receipt. Three (3) most recent, consecutive months should be provided
- STR Rental Income is acceptable and must be verified from a third-party property management provider. Information must contain property address / ID specific to subject property.
    - Vendors such as Airbnb – AirDNA - VRBO – HomeAway are acceptable subject to the following:
        - Maximum 70% CLTV and Minimum 1.00x DSCR
        - Permitted for both purchase and refinance transactions. For New construction Short Term Rental income must be deemed common and typical for the area per the appraisal and/or property location
        - Gross rent to be determined by the lower of the market rent disclosed on the appraisal or 12-month short term rental history (12 months required for Refinance Only)

- Vacant properties not eligible for Refinance with exception of properties currently vacant due to the subject property having undergone recent renovation or rehab, with the intention of being rented out soon. Support of this must be provided via the appraiser confirming recent work completed and providing visual evidence. In scenarios like this, market rent from the 1007 schedule in the property appraisal may be used to qualify
- Any loan where Cash-Out proceeds would be utilized for personal use will not be eligible for the Loanhouse Simple Access DSCR program

Reserve Requirements

- Reserves are calculated off actual P&I payment plus taxes, insurance, and HOA fees (PITIA) for the subject property
- For Interest Only loans, reserves will be calculated off the initial Interest payment, plus taxes, insurance, and HOA fees (ITIA) for the subject property
- No requirement for additional reserves for other financed properties, Subject Property reserves only
- *See* Loanhouse Simple Access DSCR Matrix for specific reserve requirements
- Cash-Out proceeds can be utilized for reserves on loans

Employment Verification

- Employment Verification may be listed on the 1003 but is not required on DSCR.
- Guidance below breaks down all verification options

Wage Earner / Salaried Borrower

- Salaried / wage earner can provide an employment letter on company letterhead signed by an authorized representative of the company

    - Letter must contain date, address, position, and amount of time employed
    - FNMA Form 1005 may also be utilized
- Additional documented verification of employment can be utilized, if reasonable

Self Employed Borrowers

- Self-employed borrowers / guarantors may provide a letter from their Tax Professional certifying a minimum of two years' business experience
- Accountant letter must contain name, address, phone, and license number
- Tax Professional must provide the above information and include proof of their appropriate licensing information
- Additional documented verification of employment may be utilized, if reasonable

No Employment Verification

- Borrower / guarantors who do not provide adequate employment verification are still eligible for the Simple Access DSCR Program

Professional Investors

- Loanhouse Simple Access DSCR Program is only eligible for Professional Investors
- Professional Investors must have at least twelve (12) months of experience owning and/or managing income- producing real estate within the most recent thirty-six (36) months from the origination of the Note
- First Time Investors are allowed provided that the DSCR is >1.0, the Credit Score is >700 and there are no exceptions on the file
- First Time Investors MAY NOT be a First Time Homebuyer
- A Letter of Explanation (LOE) by the borrower / Guarantor is required to detail relevant real estate experience
- Loanhouse reserves the right to request specific documentation to validate the LOE

Rent Loss Insurance

- Rent loss insurance for the subject property is required and must equal at least six (6) months of local average monthly rents
- Blanket policies covering the subject property are permitted

Recourse / Guarantee

- Personal recourse required
- All borrower(s) should execute a Personal Guaranty Agreement, or similar form as required

Assignment of Rent

- 1–4 Family Rider / Assignment of Rents must be in origination file (FNMA Form 3170)

Cash Out

- Cash-Out proceeds on a refinance loan are allowed with the following requirements:
  - Borrower must have owned the subject property 12+ months using data of original acquisition and subject loan note date for timing
  - Cash-Out is for Business Purposes only and the borrower must provide an LOE detailing the purpose and use of the proceeds
  - For DSCR borrower(s) obtaining a Rate / Term or Cash-Out Refinance loan, the borrower must execute a Business Purpose & Occupancy Affidavit
- All borrower(s) must execute an Occupancy Certification or similar form

Assets

Documentation

- Full Asset Documentation is required for both funds to close and reserves. For most asset types, this would include all pages of the most recent one-month (1) statement, the most recent quarterly statement, or FNMA approved third party direct pull services
- Publicly traded Stocks / Bonds / Mutual Funds – 100% may be used for reserves
- Vested Retirement Accounts – 100% may be considered for reserves.
- Bitcoin or other forms of cryptocurrency are permitted for both funds to close, and reserves provided the cryptocurrency has been converted or liquidated to cash. Seasoning requirements not applicable given liquidation
- Assets being used for dividend and interest income may not be used to meet reserve requirements
- Follow FNMA guides if funds require liquidation when used for the down payment or closing costs, and if the funds are being used for reserves
- Gift of Equity is not allowed
- Builder profits are not allowed
- Maximum Interested Party Contributions permitted up to 6%
- Rent credits not permitted
- LOE required for large deposits, as defined by Fannie Mae. If questionable, an LOE should be provided; If LOE is sufficient, sourcing may not be required
- DSCR large deposits should be in line and consistent with the borrower's overall credit and business profile and may require a letter of explanation

Business Assets

- Business assets are an acceptable source of funds for down payment, closing costs, and reserves for self-employed borrowers; all the following must be met:
  - The borrowers on the loan must have a minimum of 50% ownership of the business and must be owners on the business account
  - Ownership percentage must be documented via CPA letter, Operating Agreement, or equivalent
  - All non-borrowing owners of the business must provide a signed and dated letter acknowledging the transaction and confirming the borrower's access to funds in the account
  - The balance of the business assets must be multiplied by the ownership percentage to determine the owner's portion of business assets allowed for the transaction
  - A signed letter from a CPA or Underwriter Cash Flow Analysis must also be obtained verifying that the withdrawal of funds for the transaction will not have a negative impact on the business; not required on DSCR loans

Gift Funds

- Gifts from family members, as defined by FNMA, are allowed
- Gift funds cannot be counted towards reserves
- General Requirements:
  - Purchase transactions only
- Gift funds not permitted:
  - Second Homes and Investor properties >80% LTV / CLTV
- Down Payment Requirements:
  - Gift funds are acceptable as 100% down payment for loans <75% LTV / CLTV
  - Gift funds are acceptable for loans >=75% LTV / CLTV however the underlying borrower(s) must contribute at least 5% of the transaction (lower of Purchase Price or appraised Value) from their own funds
    Example: A $500,000 purchase price where the LTV / CLTV is going to be 75% or higher would require the borrower to have a $25,000 of their own funds provided ($500,000 x .05% = $25,000)

Other Asset Sources

Life insurance Cash Value

- Life insurance policy current cash value or loan against the cash value may be used for down payment, closing costs or reserves

Foreign Assets

- Foreign assets are acceptable and must be sixty (60) days seasoned with two (2) most recent bank statements. A currency calculation must be provided

- Assets from countries under OFAC sanctions are not permitted

Non-borrowing Spousal accounts / access letters

- Allowable with relationship letter. If the loan is a bank statement loan or 12-month P&L loan, non-borrowing joint account holder affidavit is required to ensure no deposits by that non-borrower is included as income

Restricted Stock

- Restricted stock is ineligible to be used for reserves

Sale of Personal Assets

- Proceeds from the sale of personal assets are an acceptable source of funds for the down payment, closing costs, and reserves provided the individual purchasing the assets is not a party to the property sale transaction or the mortgage financing transaction. Documentation required supporting borrower ownership of the asset, independent valuation of the asset, ownership transfer of the asset and borrower's receipt of sale proceeds

Employer Assistance

- Employer assistance in the form of a grant, direct fully repayable second mortgage, forgivable second mortgage or deferred payment second mortgage or unsecured loan, and shared appreciation down payment assistance are permitted. Funds must come directly from the employer, may be used for down payment / closing costs subject to minimum borrower contributions, may be used for reserves except for unsecured loans and are only eligible for primary residence. Any obligation for the borrower that arises from receipt of this assistance must be included in qualifying the borrower.

1031 Assets

- Funds held by a 1031 administrator / agent are permitted for down payment and closing costs

Liabilities

Departing Residence

- Departing residence positive rental income cannot be used to qualify. Departing residence PITIA / ITIA can be offset by 75% of projected net rental income or if subject is recently rented, a copy of two of the following will be acceptable (first month's rent, last month's rent, security deposit). Departing residence rental that produces a loss must be included in DTI

- An additional 3 months Early Payoff (EPO) protection may be required except in the following circumstances (Loanhouse to monitor and nothing needed from the seller up front):
  - Departing residence is being converted to an investment property and the borrower can provide a signed 12- month lease from the new tenant and evidence of payment for some combination of monies received (1st, last and security)
  - Departing residence is under contact for sale with evidence of earnest money deposit and that sale will occur prior to or within 30 days of subject loan funding

Departing Residence Obligation Can Be Excluded (If No Contract in Place)

- Currently listed or signed letter of intent from borrower indicating they intend to list the departure residence for sale within ninety (90) days of closing on subject transaction
- Equity in the departure residence must be documented with a 2055 exterior appraisal or full appraisal. Departure residence must have a minimum of twenty (20%) equity after deduction of outstanding liens to exclude the payment from the DTI. If less than twenty (20%) equity, the full payment must be included in the DTI
- Required reserves for the departure residence are based on the marketing time indicated by the departure residence appraisal:
  - If appraisal indicates marketing time of six (6) months or less = twelve (12) months PITIA / ITIA
  - If appraisal indicates marketing time over six (6) months = twenty-four (24) months PITIA / ITIA

Departing Residence Obligation Can Be Excluded (If Under Contract)

- A copy of an executed sales contract for the property pending sale and confirmation all contingencies have been cleared / satisfied. The departure transaction must be closing within thirty (30) days of the subject transaction. The pending sale transaction must be arm's length
- No appraisal required for departure residence. The borrower must be netting a positive number from the sale of the property or assets must be accounted for to cover any funds the borrower may have to bring to closing on the sale of the departure residence

Property tax estimates for new construction

- Property taxes should be calculated using 1.5% of sales price for qualification (1.25% in California). Use of other property tax rates is allowed provided the rates are documented in the file

Student Loan

- Student loan payments must be included regardless of deferment or repayment in the DTI ratio. If a payment amount is not identified, 1% of the current loan balance may be utilized
- Affordability based payments may be used

Solar Leases

- Must conform to FNMA Guidelines
- PACE loans (or any similar loans with payments that are included in property taxes or take lien priority) are not eligible

Payoff of debt qualify

- Installment and revolving debt paid at closing may be excluded from the debt-to-income ratio with ONE of the following: a Credit supplement, Verification from the creditor liability as paid in full OR Evidence of payoff on Closing Disclosure

Debts paid by other / contingent liabilities

- Contingent liabilities can be excluded from DTI if the borrower provides evidence that their business or another individual / entity has made payments for twelve (12) months (0x30). Any liability related to a separation or divorce can be omitted if ordered by family court. Documentation from the court is required.

Obligations paid by business

- Excludable if can be tied to business related activities (i.e., – vehicle) and twelve (12) months (0x30) proof that business pays. Expense must be evident on business financials and the borrowing entity is an individual.

Underwriter Analysis

All loan files should contain income worksheets which detail the qualifying income calculations and debt obligations considered or not considered (and reason for exclusion)

Compensating Factors

A loan that exhibits a credit underwriting exception, should have at least two compensating factors that are not related to the specific exception, which are intended to offset or mitigate the exception. Each loan presents a unique and individual set of circumstances and should be reviewed and considered based on their own content. The following list of possible compensating factors identifies some common types of compensating factors that may apply to a loan.

- FICO score above program minimum by twenty (20) points or higher
- DTI below program maximum by 5% points or greater
- PITIA / ITIA reserves above program minimum by six (6) months or higher

- Reduction in housing payment by 10% or greater
- Increase in residual income by 10% or greater
- Residual income $1,000 above the program minimum required
- 0 X 30 X 24-month housing history
- Five (5) years minimum in subject property
- Job stability of five (5) years or more

Exceptions

- Exceptions to the Loanhouse Program Seller Guidelines will be considered on a loan-by-loan basis.
- Submit Exception Request Form to Exceptions@loanhouseTPO.com
- Loans with exception requests should exhibit strong documented compensating factors and may be subject to additional LLPA's

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NOTE: *The granting of an underwriting exception does not obligate Loanhouse to purchase the loan.*

Residual Income

- Residual income equals Gross Qualifying Income Less Monthly Debt (as included in the debt-to-income ratio)
- If the loan is an HPML, or if the DTI exceeds 43%, borrowers must have a minimum monthly residual income as required below:

in Household – Required Amount
1 - $1,500
2 - $2,500
Add $150 for additional family members

Documentation Age

- Unless otherwise stated in this guide, all credit documents including credit report, income docs, and asset statements must be dated no more than ninety (90) days prior to the note date. The note date is utilized for document expiration for all funding types

Property

Appraisal

- All appraisals must comply with and conform to USPAP and the Appraisal Independence Requirements, and any requirement for HPMLs, if applicable
- The appraiser must not have a direct or indirect interest, financial or otherwise, in the property or in the transaction
- An appraisal prepared by an individual who was selected or engaged by a borrower, property seller, real estate agent or other interested party is not acceptable
- Assigned appraisals are acceptable, unless ordered by borrower
- Two appraisals are required to be delivered for either of the following scenarios: loan amounts > $2,000,000 or HPML flip transactions as defined by the CFPB. Interior photos are required
- Original appraisals are valid for one hundred twenty (120) days from the note date. Any appraisal dated greater than one hundred twenty (120) days will require a recertification of value completed by the original licensed appraiser and is good for an additional one hundred twenty (120) days. If the loan does not close within the initial recertification, then another update may be obtained but the original appraisal must be dated within 12 months of the note
- Legal non-conforming zoned properties must indicate that the subject property can be 100% rebuilt if it is severely damaged or destroyed
- Appraisals with condition or quality ratings of C5 or C6 will not be eligible for purchase by Loanhouse
- Form 1007 Schedule of Rents is required for all Non-Owner-Occupied loans on Single Family residences
- For 2–4 unit properties, a FNMA 1025 Small Residential Income Property Appraisal Report is required

Third Party Appraisal Review

- The Appraised Value (or lowest if two are required) is the only value used to determine the property value for the subject loan. Any secondary valuation products are provided only to support the value of the origination appraisal and are not meant to be used as a substitute value for the property
- When a third-party valuation is required, the vendor must be approved by a major Rating Agency: Fitch Ratings, Moody's, or S&P (Standard & Poor's)
    - Examples of accepted third-party valuation products:
        - Clear Capital - Collateral Desktop Analysis (CDA)
        - Stewart Valuation (Protek Valuation) - Appraisal Risk Review (ARR)
- The Vendor Appraisal Review final opinion of value must be within -10% of the origination appraisal(s)
- For LTVs > 85%, the review value must be within -5%
- If the review value fails the above-mentioned variances, the seller must provide an additional valuation report to support the origination appraisal. The required report types, in order, are as follows:
- Field Review and then a 2055 Exterior Appraisal-must meet the required variance levels stated above to proceed
- Review values greater than the origination appraisal have no tolerance requirements

- The Seller may utilize Collateral Underwriter (CU) and/or Loan Collateral Advisor (LCA) as a secondary valuation if the score is <=2.5. File must include a copy of the Submission Summary Report. If both are run, they must be done at the same time.; only one needs to have a passing score
- Desk review and other review products are not required for loans with two (2) appraisals

FEMA Disaster Areas

- Sellers are responsible for identifying areas impacted by disasters and ensuring that subject property has not been adversely impacted
- A list of federally declared disaster areas may be found on the FEMA website at http://www.fema.gov.disasters
- In addition, when there is knowledge of an adverse event occurring near or around the subject property, including but not limited to earthquakes, floods, tornadoes, or wildfires, additional due diligence is required to determine when the disaster area Guidelines must be followed
- Guidelines for disaster areas should be followed ninety (90) days from the incident period ending date or the date the adverse event occurred, whichever is greater

Appraisal Completed Prior to Disaster

- Appraisal update or final inspection from the appraiser must be obtained
- Damage that impacts the safety or habitability of the property or damage in excess of $2000 will not be purchased by Loanhouse

Appraised After Disaster Incident

- Appraiser must comment on the adverse event and any effect on marketability or value
- Damage that impacts the safety or habitability of the property or damage in excess of $2000 will not be purchased by Loanhouse

Disaster Incident Occurs After Closing, Prior to Funding

- A Post Disaster Inspection (PDI) Report from Clear Capital or Damage Assessment Report (DAR) from Pro Teck will need to be provided to Loanhouse
- Any indication of damage reflected on the report will require a re-inspection by the appraiser
- Damage that impacts the safety or habitability of the property or damage in excess of $2000 will not be purchased by Loanhouse

Eligible Property Types

- One Unit Single Family Residences (Attached, Detached and Modular)
- Single Family properties with ADU (Accessory Unit Dwelling) follow FNMA requirements and restrictions

- 2–4 Unit Properties
- PUDs – Attached and Detached
- Townhouses
- Leasehold Properties
- Maximum of 20 acres
- Rural Properties (DSCR Ineligible)
    - A property indicated by the appraisal as rural, or containing any of the following characteristics, is usually considered a rural property:
        - Neighborhood is less than 25% built-up;
        - Area around the subject is zoned agricultural;
        - The photographs of the subject show a dirt road;
        - Comparables are more than five (5) miles away from the subject property;
        - Subject property and or comparables have lot sizes greater than ten (10) acres;
        - or Subject property and or comparables have outbuilding or large storage sheds.
    - Rural properties must comply with the following criteria:
        - The primary use must be residential;
        - The property must not be agricultural, or otherwise providing a source of income to the borrower or for the subject loan;
        - The lot size and acreage must be typical for the area and similar to the surrounding properties;
        - The maximum acreage allowed is 20 acres;
        - The present use must be the "highest and best use" for the subject property;
        - The condition, quality and use of outbuildings may be considered in determining the market value of the subject property when the appraiser clearly supports the adjustments with similar comparable information; and
        - Subject property cannot be subject to any idle acreage tax benefit or other tax incentive program.
- Florida condo projects and associations subject to Florida SB-4D requirements will need Structural Integrity Reserve Studies and Milestone Structural Inspections subject to all state requirements. These properties will be considered on a case-by-case basis and will require an investor exception approval, subject to LLPA. 2022D Bill Summaries - The Florida Senate (flsenate.gov)
- Warrantable Condo
    - Seller to review and approve FNMA warrantable projects. A certification, similar to the Condo Project Warranty Certification must be provided.
- Non-Warrantable Condo
    - All non-warrantable condo loans require an exception granted by Credit Risk Management and a review conducted by Loanhouse's Enterprise Condo Desk prior to purchase.
        - Detached (site) condo units:
        - These units may be underwritten using single family dwelling LTV/CLTV Guidelines.
        - Two-to-four-unit condominium projects:
        - The priority of common expense assessments applies
        - The standard insurance requirements apply

- Submissions must be sent to Exceptions@loanhouseTPO.com and must include the following documents:
  - Condominium Project Questionnaire
  - Current Annual budget for the project
  - Current balance sheet, dated within 60 days of review request
  - Established project certification
  - Master Insurance Policy
  - HO-6 Insurance is required on all condominium units unless the interior of the unit is included in the HOA master insurance policy, known as a "Single Entity" or "All-In/All-Inclusive" policy. The HO-6 coverage amount is determined by the property insurer and must be sufficient to repair the condo unit to its condition prior to a loss claim event.
- Restrictions to Non-Warrantable Condos include:
  - Combination of multiple non-warrantable features are not permitted
  - A single owner / entity may not own more than 30% of the units
  - Commercial space must be typical to the market, have no negative impact and comprise 49% or less of project space
  - Investor concentration up to 70%
  - No more than 25% of the total units in the project may be 60 days or more past due on their condo / HOA dues
  - Borrower must carry HO-6 coverage covering the replacement of items inside the unit
  - If the project is located in a flood zone requiring insurance (per FNMA), both the subject property and complex must have adequate flood insurance
  - Seller must confirm that the project documents do not give a unit owner or any other party priority over the rights of the first mortgagee, such as right of first refusal.
  - Mandatory dues are not allowed
  - All common areas must be 100% complete
  - HOA should be in control. Projects under builder, developer control may be considered on a case-by-case basis and will require an investor exception approval, subject to an additional LLPA.
  - Submit Exception request form to Exceptions@loanhouseTPO.com
  - Please submit online via Loanhouse's online seller portal for a formal review
  - HOA reserves must demonstrate a minimum of 10%. No exceptions will be considered on this.
  - Projects involved in litigation are acceptable as long as the pending lawsuit(s) are not
    - structural in nature
    - do not affect marketability of the units
    - Potential for damages do not exceed 25% of the HOA reserves OR with documentation from the insurance carrier and attorney representing the HOA or insurance carrier that the insurance carrier has agreed to provide the defense and the association's insurance is sufficient to cover the litigation

Ineligible Properties

- Manufactured Homes
- Residential units with >= 5 units
- Log Homes
- Condotels
- Condominium projects with registration services or restrictions on owner's ability to occupy
- Cooperatives (CO-OPs) must be Owner Occupied and meet FNMA requirements
- Unique Properties
- Unpermitted additions
- Mixed Use Properties
- Builder Model Leaseback
- Boarding Houses
- Group Homes
- Fractional Ownership / Timeshares
- Assisted Living / Continuing Care Facilities
- Mandatory Country Club Memberships
- Zoning Violations
- Properties under Construction
- Agricultural zoned properties (may be considered on a case-by-case basis)
- Hawaii properties located in lava zones 1 and/or 2
- Multiple dwellings on same lot (legal ADU acceptable, limited to one)
- Working Farms
- C5 or C6 Property Condition Grades
- Live / Work Condos
- Earth Berm Homes
- Geodesic Domes
- Houseboats
- Homes on Native American Land (Reservations)
- Properties used for the cultivation, distribution, manufacture, or sale of Marijuana
- Theme Park Resort Properties

Additional Guideline Requirements

Ability to Repay

- All Covered Loans must be designated as ATR compliant and must adhere to the standards set forth in the CFPB's Reg Z, Section 1026.43(c)

Agency Ineligibility

- All applicable loans are required to have evidence of agency ineligibility documented on DU or LPA and the 1008.

High Cost

- Loanhouse does not purchase loans defined as high-cost mortgages under Federal or state law, regardless of the basis for the loan's treatment as such.
- Cured High-Cost loans are also not eligible

Fraud

- A fraud prevention pull is required from DataVerify, Core Logic, SAS or a similar engine

Hazard insurance (1-4 Unit Properties)

- 100% of the replacement cost value of the improvements as of the current property insurance policy effective date, or the unpaid principal balance of the loan, provided it equals no less than 80% of the replacement cost value of the improvements as of the current property insurance policy effective date
- All other coverages/property types follow FNMA policy

Flood insurance (1-4 Unit Properties)

- The minimum amount of flood insurance required for first mortgages must be equal to the lesser of
  - 100% of the replacement cost value of the improvements,
  - the maximum coverage amounts available from NFIP, or
  - the unpaid principal balance (UPB) of the loan (or loan amount at the time of origination)
- All other coverages/property types follow FNMA policy

Escrows

- Unless required by applicable state law, escrow waivers are permitted

- Flood insurance premiums are required to be escrowed
- Mandatory escrows for taxes and insurance will be required for all HPML (5 years) loans

Escrow Holdbacks

- Loanhouse will not purchase a loan with an escrow holdback.
- Weather related holdbacks may be considered on an exception basis
    - Submit Exception Request Form to Exceptions@loanhouseTPO.com

Assumability

- Fixed rate loans are not assumable
- Adjustable-rate loans may be assumable depending on Note

Manual Underwrite

- All loans must be manually underwritten
- All loan files should contain income worksheets which detail the qualifying income calculations and debt obligations considered or not considered (and reason for exclusion).

Maximum Financed Properties

- Loanhouse will purchase a maximum of ten loans to one borrower with an aggregate loan amount up to $7.5M.
- Owner-occupied properties: There is not a maximum number of financed properties the borrower may have if the subject property will be owner-occupied.
- Second home and investment: Maximum 20 residential properties may be financed, including the borrower's principal residence.
- Borrower(s) will be required to meet the subject property reserve requirement plus two months of reserves for each additional financed property, capped at a total of 12 months reserves for all properties (including Subject property)
- Additional reserve requirements for other financed properties are not applicable on DSCR Loans

Power of Attorney

- Limited Power of Attorney (POA) is acceptable for executing closing documents, is specific to the transaction, contains an expiration date, initial 1003 is signed by the borrower executing the POA
- Not permitted on Entities: LLC, Corporations, Entity Borrowers, etc.
- Not permitted on Cash-Out transactions

E-Signatures

- E-signatures are permitted with the exception of the following documents: Note, Mortgage, Deed of Trust, Closing Disclosure, Power of Attorney, documents that require a Notary signature, Riders / Addendums, and any state regulated disclosures. These documents require a wet signature