Defy Mortgage Wholesale – Loan Underwriting Guidelines

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1 GENERAL PROGRAM INFORMATION

1.1 PROGRAMS

Defy offers several loan programs. See the Defy Matrices for complete details:

- Non-Agency Program
- Subprime Program
- DSCR Program

1.2 INCOME DOCUMENTATION

Documentation types include:

- **Full Documentation:** 1- or 2-years W-2s or tax returns
- **Alternative Income Documentation:** Personal Bank Statements, Business Bank Statements, 1099s, or 1-Year Profit and Loss Statement, Asset Depletion

1.3 PRODUCTS / LOAN AMOUNTS AND LOAN-TO-VALUES / STATE RESTRICTIONS

See Posted Defy Credit Matrix Cards.

1.4 EXCEPTIONS

Exceptions to published guidelines are considered on a case-by-case basis. Loans with exception requests should exhibit strong compensating factors. All exception requests must be submitted by the Broker in writing to Defy Mortgage on the Defy Exception Request Form along with any supporting documentation.

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2 TRANSACTIONS

2.1 OCCUPANCY

2.1.1 PRIMARY RESIDENCE

A primary residence (or owner-occupied property) is a dwelling occupied by the borrower as his or her principal residence. To qualify as a primary residence, the transaction must meet each of the following criteria:

- Property is located in the same general area as the borrower's employment.
- Borrower intends to occupy the subject property for the majority of the year.
- Property possesses physical characteristics that accommodate the borrower's family.

2.1.2 SECOND HOME

A second home is a dwelling occupied by the borrower in addition to their primary residence (may also be referred to as a vacation home). Second homes are restricted to 1-unit dwellings. Typical second homes should meet the following criteria:

- Be located a reasonable distance away from the borrower's primary residence.
- Must be occupied by the borrower for some portion of the year.
- Suitable for year-round occupancy.
- Borrower 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.

2.1.3 INVESTMENT PROPERTY

An investment property (or non-owner-occupied property) is an income-producing property that the borrower does not occupy. A signed Business Purpose & Occupancy Affidavit is required on all investment property transactions.

2.2 PURCHASE

A purchase transaction is one which allows a buyer to acquire a property from a seller. A copy of the fully executed purchase contract and all attachments or addenda is required. The lesser of the purchase price or appraised value of the subject property is used to calculate the loan-to-value.

2.3 GENERAL REFINANCE REQUIREMENTS

Rate/term refinance and cash-out refinance are allowed. All investment property refinances require an appraisal review product. See 11.7.5 Appraisal Review Process for detailed requirements.

2.3.1 DETERMINING LOAN-TO-VALUE

2.3.1.1 RATE/TERM REFINANCE

For rate/term refinance transactions, the current appraised value may be used to determine loan-to-value.

2.3.1.2 CASH-OUT REFINANCE

If the property was acquired < 6 months from note date, the lesser of the current appraisal value or previous purchase price plus documented improvements (if any) must be used. The purchase settlement statement and any invoices for materials/labor will be required. If the subject property was acquired ≥ 6 but < 12 months from note date, the appraised value may be used to determine loan-to-value when the following requirements are met:

- Clear Capital CDA, Field Review, or FNMA Collateral Underwriter/ FHLMC Loan Collateral Advisor Review w/score of 2.5 or less (copy of the Submission Summary Report required)
- Maximum 75% LTV

If the subject property was acquired ≥ 12 months from note date, the appraised value may be used to determine loan-to-value.

2.3.2 BENEFIT TO BORROWER

In keeping with the commitment of responsible lending, all primary residence and second home refinance transactions must have a measurable benefit to the borrower. When determining the benefit on a refinance transaction, one or more of the following must exist to support the benefit to the borrower:

- Balloon payoff
- Title transfer
- Property retention
- Rate reduction
- P&I reduction
- Debt reduction
- Uncontrolled cash-out

State-specific and/or federal benefit to borrower compliance requirements must be adhered to. Defy Underwriters will complete the Defy Benefit for Borrower Worksheet to ensure compliance with the Defy benefit to borrower policy. Files must contain documentation supporting the acceptable benefit. Additional restrictions apply if the new loan refinances an existing loan considered to be a special mortgage. A special mortgage is originated, subsidized, or guaranteed by or through a state, tribal, or local government, or nonprofit organization that either bears a below-market interest rate at the time the loan was originated or has nonstandard payment terms beneficial to the borrower, such as payments that vary with income, are limited to a percentage of income, or where no payments are required under specified conditions. If the borrower will lose one or more of the benefits of the special mortgage, then both of the following apply:

- Underwriter must check that the loan complies with all applicable state and local laws as well as laws associated with the subject special loan program for compliance; and
- Underwriter must take special care to ensure a net tangible benefit to the borrower.

2.3.3 PROPERTIES LISTED FOR SALE

To be eligible for either a rate/term or a cash-out refinance, the subject property must be taken off the market on or before application date. The borrower must also confirm in writing the reason for the prior listing and intent to occupy the subject property. For cash-out transactions, if the subject property was listed for sale in the 6 months prior to application date, a 5% LTV reduction from the maximum available for the specific transaction is required. The lesser of the most recent list price or the current appraised value should be used to determine loan-to-value for both rate/term and cash-out transactions.

2.4 RATE/TERM REFINANCE

A rate/term refinance is the refinancing of an existing mortgage for the purpose of changing the interest and/or term of a mortgage without advancing new money on the loan. The mortgage amount for a rate/term refinance is limited to the sum of the following:

- Existing first mortgage payoff
- Closing costs and prepaid items (interest, taxes, insurance) on the new mortgage
- The amount of any subordinate mortgage liens used in their entirety to acquire the subject property (regardless of seasoning)
- The amount of a home equity line of credit in first or subordinate lien position that was used in its entirety to acquire the subject property (regardless of seasoning)
- Any subordinate financing that was not used to purchase the subject property provided:
  - For closed end seconds, the loan is at least one year seasoned as determined by the time between the note date of the subordinate lien and the application date of the new mortgage.
  - For HELOCs and other open-ended lines of credit, the loan is at least one year seasoned and there have been less than $2,000 in total draws over the past 12 months.

If the most recent first mortgage transaction on the property was a cash-out refinance within the last 6 months, the new mortgage is not eligible as a rate/term and must proceed as a cash-out refinance. Note date to note date is used to calculate the 6 months. On rate/term transactions, the borrower may only receive cash back in an amount that is the lesser of 2% of the new mortgage balance or $2,000.

2.5 CASH-OUT REFINANCE

A cash-out refinance is a refinance that does not meet the rate/term refinance definition. Cash-out would include a refinance where the borrower receives cash from the transaction or when an open-ended subordinate lien (that does not meet the rate/term seasoning requirements) is refinanced into the new transaction. A mortgage taken out on a property previously owned free and clear is always considered a cash-out refinance. The mortgage amount for a cash-out refinance transaction may include any of the following:

- Existing first mortgage payoff
- Closing costs and prepaid items (interest, taxes, insurance) on the new mortgage

- The amount of any subordinate mortgage liens being paid off that do not meet seasoning and draw history requirements as described in 2.4 Rate/Term Refinance
- The amount of any non-mortgage related debt paid off through closing.
- Additional cash in hand reflected on the settlement statement

A signed Business Purpose & Occupancy Affidavit is also required on all investment property cash-out transactions. Net proceeds may only be utilized for business purposes as prescribed on the affidavit.

2.5.1 SEASONING

For all cash-out refinance transactions, a minimum of 6 months must have elapsed since the most recent mortgage transaction on the subject property (either the original purchase transaction or subsequent refinance). Note date to note date is used to calculate the 6 months. See also 2.3.1 Determining Loan-to-Value for calculating LTV. There is no waiting period if the borrower acquired the property through an inheritance or was legally awarded the property through divorce, separation, or dissolution of a domestic partnership. See also 2.9 Inherited Properties and Property Buyouts.

2.5.2 DELAYED FINANCING

Cash-out on properties purchased by the borrower with cash and owned less than 6 months is allowed. The following requirements apply:

- Original transaction was an arm's-length transaction
- Settlement statement from purchase confirms no mortgage financing used to acquire subject
- Source of funds used for purchase documented (gift funds may not be included)
- New loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan
- Standard cashout limits do not apply to delayed financing transactions.

2.5.3 CASH-OUT LIMITS

See applicable Defy matrix.

2.6 TEXAS HOME EQUITY LOANS

A Texas Section 50(a)(6) mortgage is a Cash Out Refinance or home equity loan originated under the provisions of Article XVI, Section 50(a)(6), of the Texas Constitution, which allow a borrower to take equity out of a homestead property under certain conditions. Max LTV/ CLTV 80% - Please refer to the State of TX Rules and Guidelines regarding these types of Loans. You may also follow the Fannie Mae Sellers Guide for more information.

2.7 FLIP TRANSACTIONS

When the subject property is being resold within 365 days of its acquisition by the seller and the sales price has increased more than 10%, the transaction is considered a "flip". To determine the 365-day period, the acquisition date (the day the seller became the legal owner of the property) and the purchase date (the day both parties executed the purchase agreement) should be used. 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 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. See 11.7.5 Appraisal Review Process.

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/. A second appraisal is required in the following circumstances:

- Greater than 10% increase in sales price if seller acquired the property in the past 90 days
- Greater than 20% increase in sales price if seller acquired the property in the past 91-180 days

2.8 NON-ARM'S LENGTH TRANSACTIONS

Non-arm's length transactions involve a direct relationship outside of the subject transaction between a borrower and a party to the loan. The appraiser must be informed of the relationship and address any impact on market value. Examples of non-arm's length transactions include, but are not limited to, the following:

- Family member sales
- Renters purchasing from current landlord
- Buyer trading properties with the seller
- Property seller foreclosure bailouts
- Existing buyer relationship with loan officer, real estate agents, closing agent, appraiser, builder, or developer

Non-arm's length transactions are subject to all of the following requirements:

- Primary residence only
- Relationship must be fully disclosed
- An appraisal review product is required
- Borrower to provide a written explanation stating relationship to the seller and reason for purchase
- Borrower to provide a copy of the canceled earnest money check paid to the property seller
- Defy must be satisfied that the transaction makes sense and that the borrower will occupy the property
- All liens on title to be paid in full and reflected on the settlement statement
- Lesser of sales price or current appraised value to be used to calculate the LTV
- Borrowers cannot provide services on transaction (closing agent, title agent, appraiser, etc.)
- Borrower may not be an owner of a business entity selling the subject property

The following additional requirements apply only to family sales:

- Payment history for the seller's mortgage on the subject property must be obtained and show no pattern of delinquency within the past 12 months (if applicable)
- Verification that the borrower has not been in title to the property in the past 24 months
- Gift of equity is permitted.

2.9 INHERITED PROPERTIES AND PROPERTY BUYOUTS

Refinances of inherited properties and properties legally awarded to the borrower (divorce, separation, or dissolution of a domestic partnership) are allowed. If the subject property was acquired < 12 months prior to loan closing, the transaction is considered a cash-out. These transactions are subject to the following:

- Written agreement signed by all parties stating the terms of the buyout and property transfer must be obtained
- Equity owners must be paid through 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

2.10 LAND CONTRACT/CONTRACT FOR DEED

When the proceeds of a mortgage transaction are used to pay off the outstanding balance on a land contract that was executed more than 12 months prior to the date of the loan application, the transaction is considered rate/term refinance. If the land contract was executed within 12 months of the date of the loan application, the transaction is considered a purchase. The following requirements apply:

- Primary residence only
- Copy of fully executed land contract and payoff(s) to be obtained
- Copies of canceled checks for 12 months (or term of the lease if less) as evidence of timely payments
- If the land contract was executed less than 12 months ago, the borrower's previous housing payment history must also be verified to complete a completed 12-month history
- Liens on title to be paid in full and reflected on settlement statement at closing
- If the contract was executed less than 12 months ago, the lesser of the purchase price or the current appraised value must be used to determine LTV. The current appraised value may be used to determine LTV if the land contract was executed over 12 months ago.
- Cash-out and non-arm's length transactions not eligible

2.11 LEASE WITH PURCHASE OPTION

Lease with purchase option transactions are allowed for primary residences only. Borrowers may apply a portion of the rent paid to their down payment requirements. See 10.3.13 Rent Credit for Lease with Purchase Option for detailed requirements. For lease with purchase option transactions, the file must contain:

- Copy of fully executed rental/purchase agreement verifying monthly rent and the specific terms of the lease; and
- Copies of canceled checks for 12 months (or term of lease if less) as proof of rental payments

2.12 PERMANENT FINANCING FOR NEW CONSTRUCTION

The conversion of construction-to-permanent financing involves the granting of a long-term mortgage to a borrower to replace interim construction financing obtained by the borrower to fund the construction of a new residence. The borrower must hold title to the lot, which may have been previously acquired or purchased as part of the transaction. When a refinance transaction is used, the borrower must have held legal title to the lot before he/she applied for the construction financing and must be named as the borrower for the construction loan. A construction-to-permanent transaction may be closed as a purchase, rate/term refinance or cash-out refinance. All construction work must be complete. See 11.8.19 New Construction.

- For lots owned ≥12 months from application date for the subject transaction, LTV is based on the current appraised value.

- For lots owned < 12 months from application date for subject transaction, LTV is based on the lesser of the current appraised value of the property or the total acquisition costs (sum of construction costs and purchase price of lot).

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3 BORROWERS

A borrower is a credit applicant who will have ownership interest in the subject property, sign the security instrument, and sign the mortgage/deed of trust and note. If two or more individuals own the property jointly, and are jointly and severally liable for the note, all are considered to be borrowers. Business Entity borrowers are allowed under the DSCR Program only. See 14.3.5 Borrowing Entities.

3.1 CUSTOMER IDENTIFICATION PROGRAM (CIP)

The USA Patriot Act requires banks and financial institutions to verify the name, date of birth, address and identification number of all borrowers. Social security numbers can be validated with a copy of the social security card, an executed SSA-89 form, or through fraud report verification. Brokers are to follow the published CIP procedures for each borrower to ensure the true identity of all borrowers has been documented. Defy will also require settlement agents to verify identity at the time of closing on all loans.

3.2 FRAUD REPORT AND BACKGROUND CHECK

All loans must include a third-party fraud detection report for all borrowers. Report findings must cover standard areas of quality control including, but not limited to: borrower validation, social security number verification, criminal records, and property information (subject property and other real estate owned). All high-level alerts on the report must be addressed by Defy. If the Broker cannot electronically access the fraud report to clear high-level alerts within the fraud provider's system, an Underwriter's Certification from the Broker is acceptable. The Certification must address each individual high alert and explain what actions were taken to satisfy the issues. It must be signed and dated by a member of the Broker's underwriting staff or operations management personnel. In addition to the fraud and background check requirements, Defy will upload, as a matter of file documentation, any unsuccessful fraud report return if the background check is not available. The fraud check should also include occupancy status to assist in the validation and endorsement of the Business Purpose & Occupancy Affidavit.

3.3 U.S. CITIZENS

U.S. citizens are eligible for financing.

3.4 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 2 years that has an expiration date, as long as it is accompanied by a copy of USCIS Form I-751 requesting removal of the conditions
- Un-expired Foreign Passport with an un-expired stamp reading as follows: "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until mm-dd-yy. Employment Authorized."

3.5 NON-PERMANENT RESIDENT ALIENS

A Non-Permanent Resident Alien is a non-U.S. citizen authorized to live and work in the U.S. on a temporary basis. Non-Permanent Resident Alien borrowers are eligible for all products and programs available on the applicable Defy matrix.

3.5.1 VERIFICATION OF RESIDENCY STATUS

The following visa classifications are allowed as Non-Permanent Resident Aliens:

- E-1, E-2, E-3
- G-1 through G-5
- H-1B and H-1C, H-2 through H-4
- L-1B, L-2
- NATO 1 through 6
- O-1
- R-1
- TN-1 & 2 (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 6 months of loan application, it is acceptable to obtain a letter from the employer documenting the borrower's continued employment and continued visa renewal sponsorship (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 State Department'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 at https://travel.state.gov/content/travel/en/us-visas/tourism-visit/visa-waiver-program.html. Citizens of Venezuela are ineligible for Defy programs.

3.5.2 CREDIT REQUIREMENTS

A U.S. credit report is required for each borrower using a valid Social Security number. The primary wage-earner must qualify using Standard Tradelines as outlined in 5.4 Tradeline Requirements. A 12-month housing history is also required. See 5 Credit Analysis for complete credit requirements.

3.5.3 INCOME/EMPLOYMENT REQUIREMENTS

Standard guidelines apply for verifying income and employment of Non-Permanent Resident Aliens.

3.5.4 ASSETS

Standard guidelines apply for down payment, closing costs, and reserves. See also 10.3.7 Foreign Assets. Non-Permanent Resident Alien borrowers must have 6 months of PITIA reserves for the subject property.

3.6 ITIN BORROWERS

Individual Taxpayer Identification Number (ITIN) borrowers are individuals with an ITIN who reside and work within the United States but do not possess U.S. citizenship. ITIN borrowers are eligible for primary and second home occupancy under select products and programs of the Subprime Program only. See the Defy Non-Prime Matrix for additional information and restrictions.

3.6.1 VERIFICATION OF RESIDENCY STATUS

The following documentation is required for all ITIN borrowers:

- Unexpired ITIN card or letter from IRS assigning the ITIN to the borrower prior to application
- Unexpired government photo ID (driver's license, passport, visa, etc.)
- One item of supplemental documentation (birth certificate, tax return, W-2, tax bill, or utility bill)

If a non-U.S. citizen is borrowing with a U.S. citizen, it does not eliminate the residency requirements listed above. Citizens of Venezuela are ineligible for Defy programs.

3.6.2 CREDIT REQUIREMENTS

A U.S. credit report is required for each borrower using a valid ITIN number. The primary wage-earner must qualify using Standard Tradelines as outlined in 5.4 Tradeline Requirements. Limited Tradelines are not allowed. A 12-month housing history is also required. See 5 Credit Analysis for complete credit requirements.

3.6.3 INCOME/EMPLOYMENT REQUIREMENTS

Standard guidelines apply for verifying income and employment of ITIN borrowers.

3.6.4 ASSETS

Standard guidelines apply for down payment, closing costs, and reserves. See 10.3.7 Foreign Assets. ITIN borrowers must have 6 months of PITIA reserves for the subject property.

3.7 EXCLUSIONARY LIST/OFAC/DIPLOMATIC IMMUNITY

All parties involved on each transaction must be screened through exclusionary lists used by Defy. The Broker should apply its exclusionary list policy to any loans originated under these guidelines. Parties to the transaction must also be cleared through OFAC's SDN List (borrowers, property sellers, employers, banks, etc.). A search of the Specially Designated Nationals and Blocked Persons List may be completed via the U.S. Department of the Treasury website at https://sanctionssearch.ofac.treas.gov/. Borrowers from OFAC sanctioned countries are ineligible. A list of sanctioned countries is available at https://home.treasury.gov/policy-issues/financial-sanctions/sanctions-programs-and-country-information. Individuals with diplomatic immunity are not eligible due to the inability to compel payment or seek judgment. Verification the borrower does not have diplomatic immunity can be determined by reviewing the visa, passport, and/or the U.S. Department of State's Diplomatic List at https://www.state.gov/resources-for-foreign-embassies/deans-of-the-diplomatic-corps/.

3.8 CO-BORROWERS

Co-borrower is often used to describe any borrower other than the first borrower whose name appears on the note. All borrowers are evaluated on their ability to meet credit requirements and underwriting and eligibility standards. All co-borrowers must occupy and take title to the subject property. Co-borrowers may not be an interested party to the transaction. Possible examples include, but are not limited to, property seller, builder, realtor, appraiser (a buyer who also acts as their own buying agent is generally permitted.)

3.9 NON-OCCUPANT CO-BORROWERS

Non-occupant co-borrowers are allowed. Pricing and eligibility are based upon the credit score of the occupying borrower. The following requirements must be met:

- Primary occupancy only
- Purchase and rate/term only (non-occupant must be on the current mortgage for a rate/term refinance)
- Non-occupant co-borrower must be an immediate relative
- Max 80% LTV
- Max 60% DTI (occupying borrower only)

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- Max 43% DTI (total for all borrowers combined)
- Max loan amount $1,000,000

3.10 FIRST-TIME HOME BUYERS

A First-Time Home Buyer is defined as a borrower who had no ownership interest in a residential property during the preceding 5-year period. First-Time Home Buyers are allowed on primary residence and second home transactions only and must have 6 months of PITIA reserves for the subject property.

3.11 EMPLOYEES OF BROKER

Loans to employees of the Broker are allowed. Transactions must meet the following requirements:

- Primary residence and second homes only
- Loan must adhere to non-arm's length transaction guidelines
- Officers of the Broker are permitted on an exception basis only

3.12 LIMITED POWER OF ATTORNEY

A Limited Power of Attorney (POA) is acceptable when following requirements are met:

- POA is specific to the transaction
- Recorded with the mortgage/deed of trust
- Contains an expiration date
- Used only to execute the final loan documents
- Borrower who executed the POA signed the initial 1003
- No interested party to the transaction (such as property seller, broker, loan officer, realtor, etc.) may act as Power of Attorney

3.13 VESTING AND OWNERSHIP

3.13.1 FEE SIMPLE OWNERSHIP

Acceptable forms of vesting with Fee Simple ownership are:

- Individuals
- Joint Tenants
- Tenants in Common
- Inter Vivos Revocable Trust
- Business Entity (Investment Properties only)
- Limited Liability Company (LLC)
- Limited and General Partnerships
- Corporations
- S Corporations

3.13.1.1 INTER VIVOS REVOCABLE TRUST VESTING

Inter Vivos Revocable Trusts are allowed as vested or titled owners of the subject property (but not as borrowers). The trust must be established by one or more natural persons, solely or jointly. The primary beneficiary of the trust must be the individual(s) who establishing the trust. The trust must become effective during the lifetime of the person establishing the trust. If the trust is established jointly, there may be more than one primary beneficiary as long as the income or assets of at least one of the individuals establishing the trust will be used to apply and qualify for the mortgage. The trustee must include either:

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

The trustee must have the power to hold the title and mortgage the property. This must be specified in the trust. One or more of the individual parties establishing the trust must use personal income or assets to apply and qualify for the mortgage. A copy of the trust is required, or a signed attorney's opinion may be obtained in lieu of the trust documents. The opinion letter must indicate that the trust meets all published requirements and must also include the following:

- Name of the trust
- Date executed
- Settler(s) of the trust
- Whether it is revocable or irrevocable
- Whether the trust has multiple trustees
- Name of trustees
- Manner in which vesting will be held

The attorney needs to also verify that the trust has not been revoked, modified, or amended in any manner that would cause the representations to be incorrect. The deed of trust/mortgage and all attached riders must be completed by the authorized trustee(s) of the trust that is the vested owner of the subject property.

3.13.1.2 BUSINESS ENTITY VESTING

Ownership or title vesting in the name of a U.S. domestic LLC, partnership, or corporation (collectively 'Entity') is acceptable on investment property transactions only. For Borrowing Entity Requirements, see 14 DSCR Program and 14.3.5 Borrowing Entities. To vest ownership in an Entity but close in the name of a natural person, the following requirements must be met:

- Business purpose and activities are limited to ownership and management of real estate.
- Entity limited to a maximum of 4 owners (aka members, partners, or shareholders).
- A minimum of 50% of the Entity ownership must be represented as borrowers on the loan, each completing a 1003 as applicants.
- The loan application, credit report, income (if applicable), and assets for each Entity owner represented will be used to determine qualification and pricing.
- Each Entity owner represented must receive notice of the loan and its terms prior to closing.

The following Entity documentation must be provided:

- Entity Articles of Organization, Partnership, and Operating Agreements (if applicable)
- EIN-Employer Identification Number (or W-9 with acceptable third-party verification)
- Certificate of Good Standing
- Certificate of Authorization for the person executing all documents on behalf of the Entity

Documents must be completed and signed by each individual applicant (in their capacity as an individual only) that is an owner of the vesting Entity, as follows:

- Business Purpose & Occupancy Affidavit – signed by each Entity owner represented (both at submission and closing).

- Loan Application (1003) - completed and signed by each Entity owner represented. 1003 section labeled "Title will be held in what Name" should be completed with Entity name only.
- Disclosures (GFE, TIL, Notice of Intent to Proceed, Servicing Disclosure, etc.) - completed and signed by each Entity owner represented.
- Closing Disclosure - completed and signed by each Entity owner represented.
- Other Closing Documents (Final TIL, Business Purpose & Occupancy Affidavit, etc.) - completed by each Entity owner represented.
- Note – signed by each Entity owner represented.
- Deed of Trust/Mortgage and all attached Riders – must be completed by the authorized owner(s) representative of the Entity who can legally sign and bind the Entity that is the vested owner of the subject property.

3.13.2 LEASEHOLD ESTATE

Mortgages secured by properties on leasehold estates are acceptable in areas in which this type of property ownership has received market acceptance. The mortgage must be secured by the property improvements and the borrower's leasehold interest in the land. See also 11.8.14 Leasehold Appraisal Requirements. The leasehold estate and the improvements must constitute real property, be subject to the mortgage lien, and be insured by the lender's title policy. The leasehold estate and the mortgage must not be impaired by any merger of title between the lessor and lessee. In the event the mortgage is secured by a sublease of a leasehold estate, the documents must provide that a default under the leasehold estate will not by such default result in the termination of the sublease.

3.13.2.1 LEASE REQUIREMENTS

The following requirements must be met for leases associated with leasehold estate mortgage loans:

- The original term of the lease is not less than 15 years.
- The remaining term of leasehold is 50 years or more (including unexpired renewals) from date of the mortgage.
- The lease must provide that the leasehold can be assigned, transferred, mortgaged, and sublet an unlimited number of times either without restriction or on payment of a reasonable fee and delivery of reasonable documentation to the lessor.
- The lessor may not require a credit review or impose other qualifying criteria on any assignee, transferee, mortgagee, or sublessee.
- The lease must provide for borrower to retain voting rights in any homeowners' association.
- The lease must provide that in addition to the obligation to pay lease rents, the borrower will pay taxes, insurance, and homeowners' association dues (if applicable), related to the land in addition to those he or she is paying on the improvements.
- The lease must be valid, in good standing, and in full force and effect in all respects.
- The lease must not include any default provisions that could give rise to forfeiture or termination of the lease, except for nonpayment of the lease rents.
- The lease must include provisions to protect the mortgagee's interests in the event of a property condemnation.
- The lease must provide lenders with
    - the right to receive a minimum of 30 days' notice of any default by the borrower, and
    - the option to either cure the default or take over the borrower's rights under the lease.

3.13.2.2 ADDITIONAL ELIGIBILITY REQUIREMENTS

The following requirements must be met before a leasehold estate mortgage may be originated:

- All lease rents, other payments, or assessments that have become due must be paid.
- The borrower must not be in default under any other provision of the lease nor may such a default have been claimed by the lessor.

3.13.2.3 OPTION TO PURCHASE FEE INTEREST

The lease may, but is not required to, include an option for the borrower to purchase the fee interest in the land. If the option is included, the purchase must be at the borrower's sole option, and there can be no time limit within which the option must be exercised. If the option to purchase the fee title is exercised, the mortgage must become a lien on the fee title with the same degree of priority that it had on the leasehold. Both the lease and the option to purchase must be assignable.

3.13.2.4 ESTABLISHING LAND PURCHASE PRICE

STATUS OF PROPERTY IMPROVEMENTS – PURCHASE PRICE OF LAND The lease Already constructed at the time the lease is executed: The initial purchase price should be established as the appraised value of the land on the date the lease is executed. Already constructed at the time the lease is executed, and the lease is tied to an external index such as the Consumer Price Index (CPI): The initial land rent should be established as a percentage of the appraised value of the land on the date that the lease is executed. The purchase price may be adjusted annually during the term of the lease to reflect the percentage increase or decrease in the index from the preceding year. Leases may be offered with or without a limitation on increases or decreases in the rent payments. **Will be constructed after the lease is executed:** The purchase price of the land should be the lower of the following: The current appraised value of the land, or The amount that results when the percentage of the total original appraised value that represented the land alone is applied to the current appraised value of the land and improvements. For example, assume that the total original appraised value for a property was $160,000, and the land alone was valued at $40,000 (thus representing 25% of the total appraised value). If the current appraised value is $225,000 — $50,000 for land and $175,000 for improvements — the purchase price would be $50,000 (the current appraised value of the land, because it is less than 25% of $225,000). Note: If the lease is tied to an external index, the initial land value may not exceed 40% of the combined appraised value of the land and improvements.

3.14 MULTIPLE FINANCED PROPERTIES AND DEFY EXPOSURE

There is no limit on the number of other properties borrowers may currently have financed. When the transaction is for a 2nd home or investment property, 2 months of additional reserves for each financed property is required. Defy Mortgage exposure may not exceed $10M aggregate with a maximum of 10 loans for each individual borrower. Exceptions to this policy will be reviewed on a case-by-case basis.

3.15 INELIGIBLE BORROWERS

The following borrowers are not eligible:

- Borrowers with diplomatic immunity or otherwise excluded from U.S. jurisdiction
- Residents of any country not permitted to transact business with US companies are ineligible (as determined by any U.S. government authority)
- Trusts or Land Trusts (trusts may qualify for ownership vesting only)
- Borrowers less than 18 years old

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4 CREDIT ANALYSIS

4.1 CREDIT REPORT

A credit report is required for every borrower. The credit report should provide merged credit information from the 3 major national credit repositories. A valid Social Security number (SSN) is required for all borrowers. Either a three-bureau merged report or a Residential Mortgage Credit Report (RMCR) is required. The credit report should include verification of all credit references provided on the loan application and must certify the results of public record searches for each city where the individual has resided in the last 2 years.

4.1.1 AGE OF CREDIT REPORT/CREDIT DOCUMENTATION

All credit documentation, including the credit report, may not be more than 90 days old at the time of closing. A credit refresh report will be obtained by Defy within 10 days of the closing/note date.

4.1.2 FRAUD ALERTS

The three national credit repositories have developed automated messaging to help identify possible fraudulent activity on a credit report. Examples of fraud alerts include:

- Initial 90-day Fraud Alert
- Extended Fraud Alert
- Active-Duty Alert
- HAWK Alert

All Fraud Alerts must be properly addressed and resolved. The actions must be reasonable and compliant with applicable laws. An underwriting decision cannot be made without full resolution of the alert.

4.1.3 CREDIT REPORT SECURITY FREEZE

The credit report used to evaluate a loan may not reflect a security freeze and must be resolved prior to an underwriting decision. If a borrower unfreezes his or her credit after the date the original credit report was ordered, a new three-bureau merged report must be obtained to reflect current and updated information from all repositories.

4.1.4 INQUIRIES

A signed letter of explanation from the borrower or creditor is required for all inquiries within the most recent 90 days to determine whether additional credit was granted as a result of the borrower's request.

4.1.5 UPDATED PAYMENT HISTORIES

Payment histories may be requested directly from a creditor when the credit report indicates delinquencies have been removed or when the majority of credit is from a non-institutional lender.

4.1.6 GAP CREDIT REPORT

A gap credit report is required within 10 business days of closing. Evidence of an active Debt Monitoring Service is acceptable in lieu of a gap credit report. The Debt Monitoring Service must be in effect within 10 days of closing. If written evidence cannot be provided, a processor cert or lender attestation stating no new debts are present is allowed.

4.2 CREDIT SCORE REQUIREMENTS

The primary wage-earner score is used as the Representative Credit Score for each loan. The primary wage-earner must have a valid score from at least 2 of the following 3 agencies: Experian (FICO), TransUnion (Empirica), and Equifax (Beacon). Only scores from these agencies are acceptable. Additional borrowers on the loan must have at least one valid score of 620 or greater. To determine the Representative Credit Score for the primary wage-earner, select the middle score when 3 agency scores are provided and the lower score when only 2 agency scores are provided. When qualifying income amount is equal for all borrowers on the loan, the highest Representative Credit Score of all borrowers will be used.

4.3 TRADELINE REQUIREMENTS

Minimum Tradelines	Occupancy – Tradeline History – Minimum Standards	Standard Tradelines	Limited Tradelines
STANDARD TRADELINES	**Primary and Second Homes:** 3 tradelines reporting for 12 or more months with activity in the last 12 months or 2 tradelines reporting for 24 or more months with activity in the last 12 months or 1 tradeline for 36 or more months with activity in the last 12 months or Primary wage earner credit report reflects scores from all three bureaus and the qualifying score is 700 or higher. 0x60 for the most recent 12 months. **Investment:** (Not specified)	Primary and Second Homes: As above. Investment: As above.	N/A
LIMITED TRADELINES	**Primary and Second Homes:** Does not meet minimum tradeline requirements. N/A	Limited tradelines allowed only on the Subprime Program. Applies only to tradelines being used to meet the minimum number of trades. Tradeline must be a mortgage account or an installment account.	Primary and Second Homes: As above.

To qualify as a valid tradeline, the following requirements apply:

- The credit line must be reflected on the borrower's credit report
- The account must have activity in the past 12 months and may be open or closed
- Tradelines used to qualify may not exceed 0x60 in the most recent 12 months
- An acceptable 12- or 24-month housing history not reporting on credit may also be used as a tradeline

Only the primary wage-earner must meet the minimum tradeline requirements listed above. Credit lines on which the borrower is not obligated to make payments are not acceptable for establishing a minimum history. Examples of unacceptable tradelines include loans in a deferment period, collection or charged-off accounts, accounts discharged through bankruptcy, and authorized user accounts. Student loans can be counted as tradelines as long as they are in repayment and are not deferred.

4.3.1 STANDARD TRADELINES

Borrowers qualifying with Standard Tradelines are eligible for all occupancy types and programs.

4.3.2 LIMITED TRADELINES

The following requirements apply when qualifying with Limited Tradelines:

- Subprime Program only
- Primary residence and second homes
- 10% minimum borrower contribution
- Minimum 6 months reserves after closing

4.3.3 INSUFFICIENT TRADELINES/NON-TRADITIONAL CREDIT

Insufficient tradelines and non-traditional credit is not allowed. Each borrower must have a valid and usable score as defined in 4.2 Credit Score Requirements.

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4.4 MORTGAGE AND RENTAL PAYMENT VERIFICATION

See the applicable Defy matrix for maximum allowable mortgage and rental payment lates. The following requirements apply for mortgage and rental verifications:

- For primary residence transactions, only the mortgage/rental history on the borrower's primary residence is required.
- For second home/investment property transactions, the mortgage/rental history on both the borrower's primary residence and the subject property are required (if applicable, i.e., refinance).
- Mortgage/rental history for the primary and/or subject property must be current at time of application and closing.
- If rental income is being used to qualify, the mortgage history(s) for the associated rental properties must be obtained.
- Any derogatory mortgage history reporting on the credit report and/or provided within the loan file will be factored into the overall housing history rating and must be brought current.
- PITIA for all REO must be documented for programs requiring a DTI calculation.
- Mortgage histories for other REOs not reporting on credit are not required.

Mortgage and rental payments that are required to be verified but not reflected on the original credit report must be documented via an institutional Verification of Rent or Verification of Mortgage (VOR/VOM). A combined total of all late mortgage and rental payments in the past 12 months must be used to determine the housing history. If the borrower is making payments to an individual or interested party, 10-12 of the last 12 months or the most recent 6 months of cancelled checks or bank statements must be obtained. A VOR/VOM is not required but may be requested for clarification.

4.4.1 NO HOUSING HISTORY OR LESS THAN 12 MONTHS VERIFIED

Borrowers who do not have a complete 12-month housing history are subject to the following restrictions:

- Primary residence and second homes only
- Minimum 6 months reserves after closing
- 10% minimum borrower contribution
- Payment Shock is not considered
- VOR/VOM must be obtained for all months available reflecting paid as agreed
- Properties owned free and clear are considered 0x30 for grading purposes.

4.4.2 MORTGAGE MODIFICATION

A mortgage modification resulting in any of the attributes listed below is subject to Housing Event seasoning guidelines under 5.14 Housing Events:

- Forgiveness of a portion of principal and/or interest on either the first or second mortgage
- Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness
- Conversion of any portion of the original mortgage debt to a "soft" subordinate mortgage
- Conversion of any portion of the original mortgage debt from secured to unsecured

4.5 ROLLING LATE PAYMENTS

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

4.6 PAST DUE ACCOUNTS

Past due consumer debts can be no more than 30 days past due at time of closing.

4.7 DELINQUENT CREDIT BELONGING TO EX-SPOUSE

Delinquent credit belonging to an ex-spouse can be excluded from the credit evaluation when all of the following apply:

- Borrower provides a copy of the divorce decree or separation agreement which shows the derogatory accounts belong solely to the ex-spouse
- Late payments occurred after the date of the divorce or separation
- Evidence of title transfer prior to any delinquent debt must be provided if debt is a mortgage, and evidence of buyout as part of court proceedings

Collection accounts assigned to an ex-spouse may be excluded from aggregate collection totals with a divorce decree or separation agreement assigning the account solely to the ex-spouse. See also 5.6 Contingent Liabilities.

4.8 LAWSUIT/PENDING LITIGATION

If the application, title, or credit documents reveal that the borrower is presently involved in a lawsuit or pending litigation, a statement from the borrower's attorney is required. The statement must explain the circumstances of the lawsuit or litigation and discuss the borrower's liability and insurance coverage. A copy of the complaint and answer may also be needed. The title company closing the loan must be informed of the lawsuit or litigation and provide affirmative coverage of our first lien position.

4.9 CONSUMER CREDIT COUNSELING SERVICE (CCCS)

Borrower enrollment in CCCS is allowed when a minimum of 12 months have elapsed on the plan and evidence of timely payments for the most recent 12 months is provided. The CCCS administrator must also provide a letter allowing the borrower to seek financing on a new home while enrolled in the plan. If accounts included in CCCS plan reflect as charge-off or collection accounts on the credit report, the balances can be excluded from the charge-off and collection limits in 4.10 Collections and Charge-offs. The monthly CCCS plan payment must be included in the DTI calculation. If a completion date is not shown on the credit report, the borrower is required to submit verification from the counseling agency establishing the date of completion.

4.10 COLLECTIONS AND CHARGE-OFFS

The following accounts may remain open:

- Collections and charge-offs < 24 months old with a maximum cumulative balance of $2,000
- Collections and charge-offs ≥ 24 months old with a maximum of $2,500 per occurrence
- Collections and charge-offs that have passed beyond the statute of limitations for that state (supporting documentation required)
- All medical collections

Collection and charge-off balances exceeding the amounts listed above must be paid in full under the Non-Agency Program. Under all other programs, collection and charge-off account balances remaining after the exclusions listed above may remain open when one of the following is met:

- Borrower has sufficient reserves to cover remaining collection and charge-off balances (in addition to the published reserve requirement); or
- Payment for remaining collections and charge-offs included in DTI results in final DTI ≤ 50% (payment calculated at 5% of balance of remaining unpaid collections and charge-offs).

A combination of the two options above is allowed. A portion of the unpaid collection balance can be included in the DTI while the remainder is covered by excess reserves. Collections and charge-offs that cannot be factored into DTI or reserves must be paid off.

4.11 JUDGMENTS AND TAX LIENS

All judgments or liens affecting title must be paid as title must insure our lien position without exception. Court-ordered judgments may remain open when one of the following options is met:

- The amount is the lesser of $5,000 per occurrence or 2% of the loan amount; or
- Judgment or liens have passed beyond the statute of limitations for that state (supporting documentation required); or
- The borrower is currently in a repayment agreement with the creditor. If the borrower is currently in a repayment plan, the following requirements apply:
  - A minimum of 3 months has elapsed on the plan and evidence of timely payments for the most recent 3 months is provided; and
  - The maximum payment required under the plan is included in the debt-to-income ratio.

Outstanding state and federal tax liens or delinquent obligations may remain open on purchase transactions only. All of the following requirements must be met:

- A copy of the repayment agreement is obtained; and
- A minimum of 3 months has elapsed on the plan and evidence of timely payments for the most recent 3 months is provided; and
- The maximum payment required under the plan is included in the debt-to-income ratio; and
- The title company must provide written confirmation confirming (a) the title company is aware of the outstanding tax lien, and (b) there is no impact to first lien position.

4.12 BANKRUPTCY

4.12.1 NON-AGENCY PROGRAM

All bankruptcies must be discharged or dismissed for a minimum of 48 months from closing date.

4.12.2 SUBPRIME PROGRAM

All bankruptcies must be discharged or dismissed for a minimum of 0 to 24 months from closing date. See the Defy Non-Prime Matrix for seasoning requirements.

4.13 HOUSING EVENTS

A Housing Event is any one of the following events listed below:

- Foreclosure
- Deed-in-Lieu
- Short Sale
- Modification
- 1x120 mortgage history

Seasoning of a foreclosure, deed-in-lieu, or short sale is measured from the date of completed sale or final property transfer. The Housing Event must be completed prior to loan closing with no outstanding deficiency balance remaining. For a 120-day mortgage late, seasoning is from the date the mortgage was brought current. Seasoning for a modification is from the date the modification was executed. See also 4.4.2 Mortgage Modification. If the property was surrendered in a Chapter 7 bankruptcy, the bankruptcy discharge date is used for seasoning. Bankruptcy papers may be required to show the property was surrendered. The foreclosure action is not required to be fully complete.

4.13.1 NON-AGENCY PROGRAM

Housing Events must be seasoned for a minimum of 48 months from closing date.

4.13.2 SUBPRIME PROGRAM

All Housing Events must be seasoned for a minimum of 0 to 24 months from closing date. See the Defy Non-Prime Matrix for seasoning requirements.

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5 LIABILITIES

5.1 INSTALLMENT DEBT

Installment debt is a monthly obligation with fixed payments and terms. Payments on installment loans must be included in the borrower's debt-to-income ratio. Payments can be excluded if there are 10 or fewer monthly payments remaining to pay the debt in full. If the payment is substantial and exceeds 5% of the borrower's qualifying income, the overall transaction should be reviewed to ensure the remaining payments will not impact the borrower's ability to handle the new mortgage payment. Installment debt paid in full prior to closing can be excluded from the debt-to-income ratio. Supporting documentation, such as a credit supplement or direct verification from the creditor, must be obtained as evidence the debt has been paid in full.

5.2 REVOLVING DEBT

Revolving debt is open-ended debt in which the principal balance may vary from month to month. The minimum required payment as stated on the credit report or current account statement should be used to calculate the debt-to-income ratio. If no payment is stated on the credit report, the greater of $10 or 5% of the current balance should be included in the debt-to-income ratio calculation. Revolving accounts are allowed to be paid off prior to or at closing in order to exclude the payment from the debt ratio. Supporting documentation, such as a credit supplement or direct verification from the creditor, must be obtained as evidence the debt has been paid in full. See 7.3 Asset Documentation for sourcing and seasoning requirements.

5.3 AUTHORIZED USER ACCOUNTS

Authorized user account should not be considered in the borrower's debt-to-income ratio.

5.4 BUSINESS DEBT

A business debt is a financial obligation of a business and can be the sole responsibility of the business or be personally secured by the business owner, making that person also liable for the debt. If the debt is reflected on the borrower's personal credit report, the borrower is personally liable for the debt, and it must be included in the debt-to-income ratio. Debts paid by the borrower's business can be excluded from the debt-to-income ratio with any of the following supporting documentation:

- Most recent 3 months canceled checks drawn against the business account; or
- Tax returns reflect the business expense deduction; or
- Business bank account statement showing assets remain after funds to close and reserve requirements are with a balance greater than or equal to the balance of the debt.

5.5 CHILD SUPPORT, ALIMONY OR MAINTENANCE OBLIGATIONS

Monthly alimony, child support or separate maintenance fees should be current at time of application and must be included in the borrower's debt-to-income ratio. File should contain supporting documentation as evidence of the obligation, such as a final divorce decree, property settlement agreement, signed legal separation agreement, or court order. If payments are past due, the arrearages must be brought current prior to loan closing. If 10 or fewer payments remain, see 5.1 Installment Debt to determine if the obligation may be excluded from the DTI calculation.

5.6 CONTINGENT LIABILITIES

An individual has a contingent liability when an outstanding debt has been assigned to another party and the creditor does not release the borrower from liability. Contingent liabilities can be excluded from the debt-to-income ratio under any of the following scenarios:

- Property resulting from buyout of former co-owner, e.g., divorce: file must include the court order and evidence of transfer of ownership
- Mortgage assumption by third party: file must include the formal assumption agreement and evidence of transfer of ownership
- Court ordered assignment of debts: file must include a copy of the court order assigning the debt to another party

The payment history for the assigned debt after the effective date of the assignment does not need to be evaluated.

5.7 DEBTS PAID BY OTHERS

When a borrower is obligated on a non-mortgage debt but is not the party actually repaying the debt, the monthly payment may be excluded from the borrower's recurring monthly obligations. This policy applies whether or not the other party is obligated on the debt but does not apply if the other party is an interested party to the subject transaction (such as the seller or realtor). Non-mortgage debts include installment loans, student loans, revolving accounts, lease payments, alimony, child support, and separate maintenance. When a borrower is obligated on a mortgage debt but is not the party who is actually repaying the debt, the full monthly payment may be excluded from the borrower's recurring monthly obligations if:

- the party making the payments is obligated on the mortgage debt,
- there are no delinquencies in the most recent 12 months, and
- the borrower is not using rental income from the applicable property to qualify.

In order to exclude non-mortgage or mortgage debts from the borrower's DTI ratio, the most recent 12 months' canceled checks or equivalent evidence of payment from the other party is required.

(Note: The original document appears truncated here in the provided text. The following sections are continued from the available content.)

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13 DSCR PROGRAM

13.1 GENERAL PROGRAM INFORMATION

13.1.1 DSCR PROGRAM

The DSCR Program is designed for investment or non-owner-occupied loans that are designated for business purposes only. Section 14 outlines requirements specific to the DSCR Program. For guidelines pertaining to closed-end seconds qualifying with DSCR documentation, see 15.6.3 DSCR.

13.1.2 PRODUCTS

See the Defy DSCR Matrix for available products.

13.1.3 MINIMUM DSCR

See the Defy DSCR Matrix for the minimum Debt-Service Coverage Ratio.

13.1.4 LOAN AMOUNTS AND LOAN-TO-VALUES

See the Defy DSCR Matrix for maximum loan amounts and LTVs.

13.1.5 STATE RESTRICTIONS

See the Defy DSCR Matrix for state restrictions.

13.1.6 AGE OF DOCUMENTATION

Unless otherwise noted, all loan documentation must be dated within 90 days of closing.

13.1.7 LOAN AGE

All applications (per RESPA/TRID definition of the 6 pieces of information required to be an application) must be submitted to Defy for Defy's issuance of initial disclosures within 24 hours of receipt by the Broker. This allows Defy 48 hours to issue initial disclosures to the applicant(s). Defy abides by the federal requirement of issuing disclosures within 3 days of the application date, defined as receipt of the 6 pieces of information required from the borrower.

13.1.8 PREPAYMENT PENALTIES

See the Defy DSCR Matrix for prepayment penalty details.

13.1.9 EXCEPTIONS

Exceptions to published guidelines are considered on a case-by-case basis. Loans with exception requests should exhibit strong compensating factors. All exception requests must be submitted by the seller in writing to Defy Mortgage on the Defy Exception Request Form along with any supporting documentation. Defy's decision to allow or deny any exception request relates only to whether Defy will purchase a loan. The decision does not bind a seller with respect to the underlying decision to extend credit. Defy reserves the right to allow guideline variances when accompanied by a compensating factor(s).

13.1.10 REQUIRED FORMS

For the DSCR Program, the following forms are required:

- Business Purpose & Occupancy Affidavit (all Borrowers, Borrowing Entities, and/or Personal Guarantors are required to sign prior to submission and at closing to declare that the property is, or will be, for commercial business or investment purpose only)
- 1-4 Family Rider/Assignment of Rents (FNMA Form 3170)
- Defy Guaranty Form (if applicable)

13.2 TRANSACTIONS

13.2.1 OCCUPANCY

The DSCR Program allows for financing of investment properties only.

13.2.2 PURCHASE

A copy of the fully executed purchase contract and all attachments or addenda is required for purchase transactions. The lesser of the purchase price or appraised value of the subject property is used to calculate the loan-to-value.

13.2.3 GENERAL REFINANCE REQUIREMENTS

13.2.3.1 DETERMINING LOAN-TO-VALUE

The following standards apply to refinance transactions under DSCR:

- If the property was acquired ≥ 6 months from note date, the appraised value may be used to determine loan-to-value.
- If the property was acquired < 6 months from note date, the lesser of the current appraised value or the previous purchase price plus documented improvements (if any) must be used. The purchase settlement statement and any invoices for materials/labor will be required.

- If the property was acquired < 6 months from note date and the property was subsequently renovated, the appraised value can be used, subject to the below requirements:
  - Provide original listing photos and/or original appraisal from purchase illustrating property condition prior to renovation.
  - Full appraisal required reflecting improvements made since purchase.
  - Value must be supported by a Clear Capital CDA or FNMA Collateral Underwriter/ FHLMC Loan Collateral Advisor Review with a score of 2.5 or less (must include a copy of the Submission Summary Report).

13.2.3.2 LEASE REQUIREMENTS

For refinance transactions, an executed lease with no less than 3 months remaining at time of close is required for all units in the subject property. Month-to-month tenancy is not subject to this requirement with sufficient evidence (such as a signed extension letter). Purchase transactions may be vacant. The following requirements apply to refinance transactions:

- Monthly lease payments must be consistent with market rents
- The property must not and cannot be occupied by a borrower, guarantor, any member of the borrower's LLC, or any family member.
- If subject property is not leased, see the DSCR Matrix for LTV restrictions.

13.2.3.3 PROPERTIES LISTED FOR SALE

To be eligible for either a rate/term or a cash-out refinance, the subject property must be taken off the market on or before application date. The borrower or guarantor must also confirm in writing the reason for the prior listing. For cash-out transactions, if the subject property was listed for sale in the 6 months prior to application date, a 5% LTV reduction from the maximum available for the specific transaction is required. The lesser of the most recent list price or the current appraised value should be used to determine loan-to-value for both rate/term and cash-out transactions.

13.2.4 RATE/TERM REFINANCE

A rate/term refinance is the refinancing of an existing mortgage for the purpose of changing the interest and/or term of a mortgage without advancing new money on the loan. The mortgage amount for a rate/term refinance is limited to the sum of the following:

- Existing first mortgage payoff
- Closing costs and prepaid items (interest, taxes, insurance) on the new mortgage
- The amount of any subordinate mortgage liens used in their entirety to acquire the subject property (regardless of seasoning)
- The amount of a home equity line of credit in first or subordinate lien position that was used in its entirety to acquire the subject property (regardless of seasoning)
- Any subordinate financing that was not used to purchase the subject property provided:
  - For closed end seconds, the loan is at least one year seasoned as determined by the time between the note date of the subordinate lien and the application date of the new mortgage
  - For HELOCs and other open-ended lines of credit, the loan is at least one year seasoned and there have been less than $2,000 in total draws over the past 12 months

If the most recent first mortgage transaction on the property was a cash-out refinance within the last 6 months, the new mortgage is not eligible as a rate/term and must proceed as a cash-out refinance. Note date to note date is used to calculate the 6 months. On rate/term transactions, the borrower may only receive cash back in an amount that is the lesser of 2% of the new mortgage balance or $2,000.

13.2.5 CASH-OUT REFINANCE

A cash-out refinance is a refinance that does not meet the rate/term refinance definition. Cash-out would include a refinance where the borrower receives cash from the transaction or when an open-ended subordinate lien (that does not meet the rate/term seasoning requirements) is refinanced into the new transaction. A mortgage taken out on a property previously owned free and clear is always considered a cash-out refinance. The mortgage amount for a cash-out refinance transaction may include any of the following:

- Existing first mortgage payoff
- Closing costs and prepaid items (interest, taxes, insurance) on the new mortgage
- The amount of any subordinate mortgage liens being paid off that do not meet seasoning and draw history requirements as described in 13.2.4 Rate/Term Refinance
- The amount of any non-mortgage related debt paid off through closing
- Additional cash in hand reflected on the settlement statement

Cash-out proceeds may only be utilized for business purposes as prescribed on the Business Purpose & Occupancy Affidavit.

13.2.6 FLIP TRANSACTIONS

When the subject property is being resold within 365 days of its acquisition by the seller and the sales price has increased more than 10%, the transaction is considered a “flip”. To determine the 365-day period, the acquisition date (the day the seller became the legal owner of the property) and the purchase date (the day both parties executed the purchase agreement) should be used. 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 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 or guarantor must be obtained.

A second appraisal is required in the following circumstances:

- Greater than 10% increase in sales price if seller acquired the property in the past 90 days
- Greater than 20% increase in sales price if seller acquired the property in the past 91-180 days

13.2.7 INHERITED PROPERTIES AND PROPERTY BUYOUTS

Refinances of inherited properties and properties legally awarded to the borrower or guarantor (divorce, separation, or dissolution of a domestic partnership) are allowed. If the subject property was acquired < 12 months prior to loan closing, the transaction is considered a cash-out. These transactions are subject to the following:

- Written agreement signed by all parties stating the terms of the buyout and property transfer must be obtained
- Equity owners must be paid through 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

13.2.8 PERMANENT FINANCING FOR NEW CONSTRUCTION

The conversion of construction-to-permanent financing involves the granting of a long-term mortgage to a borrower to replace interim construction financing obtained by the borrower to fund the construction of a new residence. The borrower must hold title to the lot, which may have been previously acquired or purchased as part of the transaction. When a refinance transaction is used, the borrower must have held legal title to the lot before he/she applied for the construction financing and must be named as the borrower for the construction loan. A construction-to-permanent transaction may be closed as a purchase, rate/term refinance or cash-out refinance. All construction work must be complete. See 11.8.19 New Construction.

- For lots owned ≥ 12 months from application date for the subject transaction, LTV is based on the current appraised value.
- For lots owned < 12 months from application date for subject transaction, LTV is based on the lesser of the current appraised value of the property or the total acquisition costs (sum of construction costs and purchase price of lot).

13.2.9 DELAYED FINANCING

Cash-out on properties purchased by the borrower with cash and owned less than 6 months is allowed. The following requirements apply:

- Original transaction was an arm's-length transaction
- Settlement statement from purchase confirms no mortgage financing used to acquire subject
- Source of funds used for purchase documented (gift funds may not be included)
- New loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan
- Standard cashout limits do not apply to delayed financing transactions.

13.2.10 INELIGIBLE TRANSACTIONS

The following transactions are ineligible under the DSCR Program:

- Non-arm's length transactions
- Land contract or contract for deed
- Lease with purchase option

13.3 BORROWERS

13.3.1 U.S. CITIZENS

U.S. citizens are eligible for financing.

13.3.2 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 2 years that has an expiration date, as long as it is accompanied by a copy of USCIS Form I-751 requesting removal of the conditions

- Un-expired Foreign Passport with an un-expired stamp reading as follows: "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until mm-dd-yy. Employment Authorized."

13.3.3 NON-PERMANENT RESIDENT ALIENS

A Non-Permanent Resident Alien is a non-U.S. citizen authorized to live and work in the U.S. on a temporary basis. Non-Permanent Resident Alien borrowers are eligible for the DSCR Program.

13.3.3.1 VERIFICATION OF RESIDENCY STATUS

The following visa classifications are allowed as Non-Permanent Resident Aliens:

- E-1, E-2, E-3
- G-1 through G-5
- H-1B and H-1C, H-2 through H-4
- L-1B, L-2
- NATO 1 through 6
- O-1
- R-1
- TN-1 & 2 (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 6 months of loan application, it is acceptable to obtain a letter from the employer documenting the borrower's continued employment and continued visa renewal sponsorship (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 State Department'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 at https://travel.state.gov/content/travel/en/us-visas/tourism-visit/visa-waiver-program.html. Citizens of Venezuela are ineligible for Defy programs.

13.3.3.2 CREDIT REQUIREMENTS

A U.S. credit report is required for each borrower on the loan using a valid Social Security number. A 12-month housing history is also required. See 14.4 Credit Analysis for complete credit requirements.

13.3.3.3 ASSETS

All funds required for down payment and closing costs on Non-Permanent Resident Alien transactions must be seasoned for 30 days. See also 14.7 Assets Analysis and 10.3.7 Foreign Assets.

13.3.4 FOREIGN NATIONALS

A Foreign National is a non-U.S. citizen authorized to live in the U.S. on a temporary basis but does not meet the definition of a Non-Permanent Resident Alien. Foreign National borrowers are eligible for the DSCR Program.

13.3.4.1 VERIFICATION OF RESIDENCY STATUS

The following visa types are allowed as Foreign Nationals:

- B-1 and B-2

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

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. 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. Canadian citizens are not required to provide a valid visa. An unexpired passport is acceptable. Borrowers who are residents of countries which participate in the State Department'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 at https://travel.state.gov/content/travel/en/us-visas/tourism-visit/visa-waiver-program.html. An unexpired passport is acceptable. Citizens of Venezuela are ineligible for Defy programs.

13.3.4.2 CREDIT REQUIREMENTS

A U.S. credit report should be obtained for each Foreign National borrower with a valid Social Security Number. The credit report should provide merged credit information from the 3 major national credit repositories. For borrowers without a valid SSN, a U.S. credit report using an Individual Taxpayer Identification Number (ITIN) is also allowed. An ITIN is acceptable if the borrower has the ITIN for purposes of reporting taxes from passive income sources only and is not employed in the U.S. Foreign National borrowers who do not have an SSN or ITIN may still proceed under the Foreign National Program with alternative credit or an international credit report. See also 14.4.3 Tradeline Requirements. All other program requirements still apply.

13.3.4.3 TRADELINES

Foreign National borrowers are subject to tradeline requirements for the DSCR Program outlined in 14.4.3 Tradeline Requirements. When a Foreign National borrower does not have a U.S. credit report or has insufficient tradelines, acceptable tradelines should be established with one of the following:

- Letters of reference from verifiable financial institutions in the U.S. or a foreign country may be used to establish sufficient tradelines. If letters of reference are obtained, they must:
    - State the type and length of the relationship, how the accounts are held, and status of the account;
    - Contact information must be provided for the person signing the letter; and
    - Any translation must be signed and dated by a certified translator.
- International consumer credit reports produced by a domestic credit agency (e.g. Experian, Equifax) may be considered to establish acceptable tradelines.

13.3.4.4 MORTGAGE AND RENTAL PAYMENT VERIFICATION

A 12-month housing history is required for Foreign National transactions and may be considered as a tradeline.

13.3.4.5 DEBT-SERVICE COVERAGE RATIO

The minimum DSCR required for Foreign National transactions is 1.00.

13.3.4.6 ASSETS

All funds required for down payment and closing costs on Foreign National transactions must be seasoned for 30 days. See also 14.7 Assets Analysis and 10.3.7 Foreign Assets. See the DSCR Matrix for complete reserve requirements.

13.3.5 BORROWING ENTITIES

Borrowing Entities in the form of a U.S. domestic Limited Liability Company (hereafter referred to as Borrowing Entity or borrower) are allowed under the DSCR Program. A Personal Guarantor is also required. Each member of the Borrowing Entity providing a personal guaranty (each a "Personal Guarantor") must complete a loan application or similar credit application signed in their individual capacity. If a standard FNMA Form 1003 is used, the section labeled, "Title to the Property Will be Held in What Name(s)," should include the Borrowing Entity name. Borrowing Entities and Guarantors must also receive notice of the loan and its terms prior to closing. The business purpose and activities of the Borrowing Entity are limited to ownership and management of real estate, and ownership is limited to a maximum of 4 owners (aka members, partners, or shareholders). In addition, members of the LLC may also not be a trust. The following documentation is required for each Borrowing Entity:

- Articles Of Organization/Certificate of Formation
- Secretary of State Search
- Operating Agreement/Bylaws (or equivalent document based on state requirements including an authorization to encumber real property and signing authority)
- Certificate of Good Standing
- EIN-Employer Identification Number (or W-9 with acceptable third-party verification)
- Evidence of signing authority for Guarantor(s) signing on behalf of the entity

Series or Layered LLCs with multiple members/managers are eligible. See 14.3.5.5 Series or Layered LLCs.

13.3.5.1 ARTICLES OF ORGANIZATION/CERTIFICATE OF FORMATION

The following requirements apply to the Articles of Organization/Certificate of Formation:

- The Articles identify the state in which the LLC was organized.
- The Articles is the document to be used to determine the exact name of the LLC.
- In some states, the Articles identify the Manager or Managing Member.

13.3.5.2 SECRETARY OF STATE SEARCH

The following requirements apply to the Secretary of State search:

- After the state in which the LLC was formed has been identified, search for the LLC on the web site of the Secretary of State for the applicable state.
- The web site will:
  - confirm the state in which the LLC was organized;
  - confirm whether the LLC is in good standing with the state (not all state websites will confirm good standing); and
  - contain the most recent Filings filed with the Secretary of State by the LLC. These filings may be labelled "Annual Reports," "Statement of Information," or "Filings."
- Open the most recent Statement of Information/Filing to determine the person or entity that manages the LLC.
- The LLC will be managed by either a Manager or a Managing Member.

- If the managing person or managing entity in the Statement of Information does not match the managing person or managing entity in the Operating Agreement, the discrepancy must be resolved.

13.3.5.3 OPERATING AGREEMENT

The following requirements apply to the Operating Agreement (or equivalent document based on state requirements including an authorization to encumber real property and signing authority):

- Review the management section of the Operating Agreement.
- This section identifies whether the LLC is managed by (i) one or more Managers, or (ii) the Members of the LLC. The Section should also provide the name(s) of the initial Manager(s).
- Review the section to ensure that the Manager or Managing Member has the authority to sign the loan document or agreement.
- The signature page of the Operating Agreement will identify the Managers and Members.
- Confirm if there are any amendments to the Operating Agreement or Resolutions/Consents changing the identity of the Managers or Members.
- If the identity of the Manager(s) or Member(s) in the Operating Agreement differ from the Articles/Certificate or the Statement of Information/Filing on the Secretary of State's website, the discrepancy must be resolved.

13.3.5.4 CERTIFICATE OF GOOD STANDING

To ensure that the LLC remains in good standing with the state, a Certificate of Good Standing from the Secretary of State must be ordered.

- The Certificate of Good Standing is required for the formation state of the LLC.
- Ensure that the Certificate of Good Standing is dated no more than 30 days prior to closing.

13.3.5.5 SERIES OR LAYERED LLCS

Series or Layered LLCs with multiple members/managers are eligible as Borrowing Entities when the following requirements are met:

- Personal Guarantor for transaction must own at least 25% of the Borrowing Entity LLC and all subsequent ascending LLCs making up the overall ownership structure.
- Personal Guarantor must have signing rights for Borrowing Entity LLC and all subsequent ascending LLCs making up the overall ownership structure.
- LLC documentation listed in 14.3.5 Borrowing Entities must be received for all ascending LLCs making up the overall ownership structure. Note: Certificate of Good Standing is required from the state where the LLC was formed and for all and all subsequent ascending LLCs.

13.3.6 PERSONAL GUARANTORS

At least one Personal Guarantor is required when the borrower is a Borrowing Entity. A Personal Guarantor must be a beneficial owner of the Borrowing Entity with 25% or greater ownership interest in the Borrowing Entity. Personal Guarantors must meet the credit requirements outlined in 14.4 Credit Analysis. The credit report for the Personal Guarantor will be used to determine qualification and pricing. Each Personal Guarantor must sign the Defy Guaranty Form and complete the loan application. References to "borrowers" in 10 Asset Analysis apply to Personal Guarantors when the borrower is a Borrowing Entity.

13.3.6.1 ELIGIBLE GUARANTORS

U.S. Citizens, Permanent Resident Aliens, Non-Permanent Resident Aliens, and Foreign Nationals are eligible to act as Personal Guarantors under the DSCR Program.

13.3.6.2 INELIGIBLE GUARANTORS

The following individuals are not eligible to be Personal Guarantors:

- Individuals with diplomatic immunity or otherwise excluded from U.S. jurisdiction
- Residents of any country not permitted to transact business with US companies are ineligible (as determined by any U.S. government authority)
- Trusts or Land Trusts
- Individuals less than 18 years old

13.3.7 CUSTOMER IDENTIFICATION PROGRAM (CIP)

The USA Patriot Act requires banks and financial institutions to verify the name, date of birth, address, and identification number of all borrowers or guarantors. Social security numbers can be validated with a copy of the social security card, an executed SSA-89 form, or through fraud report verification. Brokers are to follow the published CIP procedures for each borrower or guarantor to ensure the true identity of all borrowers or guarantors has been documented. Defy will also require settlement agents to verify identity at the time of closing on all loans.

13.3.8 FRAUD REPORT AND BACKGROUND CHECK

All loans must include a third-party fraud detection report for all borrowers, guarantors, and all members of each Borrowing Entity. Report findings must cover standard areas of quality control including, but not limited to: borrower/guarantor validation, social security number verification, entity validation, criminal records, and property information (subject property and other real estate owned). All high-level alerts on the report must be addressed by Defy. If the Broker cannot electronically access the fraud report to clear high-level alerts within the fraud provider's system, an Underwriter's Certification from the Broker is acceptable. The Certification must address each individual high alert and explain what actions were taken to satisfy the issues. It must be signed and dated by a member of the Broker's underwriting staff or operations management personnel. In addition to the fraud and background check requirements, Defy will upload, as a matter of file documentation, any unsuccessful fraud report return if background check is not available. The fraud check should also include occupancy status to assist in the validation and endorsement of the Business Purpose & Occupancy Affidavit.

13.3.9 EXCLUSIONARY LIST/OFAC/DIPLOMATIC IMMUNITY

All parties involved on each transaction must be screened through any exclusionary list used by Defy. The Broker should apply its exclusionary list policy to any loans originated under these guidelines. Parties to the transaction must also be cleared through OFAC's SDN List (borrowers, guarantors, property sellers, employers, banks, etc.). A search of the Specially Designated Nationals and Blocked Persons List may be completed via the U.S. Department of the Treasury website at https://sanctionssearch.ofac.treas.gov/. Borrowers or guarantors from OFAC sanctioned countries are ineligible. A list of sanctioned countries is available at https://home.treasury.gov/policy-issues/financial-sanctions/sanctions-programs-and-country-information. Individuals with diplomatic immunity are not eligible due to the inability to compel payment or seek judgment. Verification the borrower or guarantor does not have diplomatic immunity can be determined by reviewing the visa, passport, and/or the U.S. Department of State's Diplomatic List at https://www.state.gov/resources-for-foreign-embassies/deans-of-the-diplomatic-corps/.

13.3.10 FIRST-TIME INVESTOR

A First-Time Investor is a borrower who has not owned at least one investment property for at least 12 months anytime during the most recent 12-month period. See the DSCR Matrix for restrictions for First-Time Investors.

13.3.11 LIMITED POWER OF ATTORNEY

A Limited Power of Attorney (POA) is acceptable when following requirements are met:

- POA is specific to the transaction

- Recorded with the mortgage/deed of trust
- Contains an expiration date
- Used only to execute the final loan documents
- Borrower who executed the POA signed the initial 1003
- No interested party to the transaction (such as property seller, broker, loan officer, realtor, etc.) may act as Power of Attorney
- Not permitted on cash-out or Borrowing Entity transactions

13.3.12 VESTING AND OWNERSHIP

Ownership must be fee simple. Acceptable forms of vesting are:

- Individuals
- Joint tenants
- Tenants in Common
- Inter Vivos Revocable Trust
- Business Entity
- Limited Liability Company (LLC)
- Limited and General Partnerships
- Corporations
- S Corporations

13.3.12.1 INTER VIVOS REVOCABLE TRUST VESTING

See 3.13.1.1 Inter Vivos Revocable Trust Vesting for complete requirements.

13.3.12.2 BUSINESS ENTITY VESTING

Ownership or title vesting in the name of a U.S. domestic Limited Liability Company (LLC), partnership, or corporation (collectively 'Entity') is acceptable. For Borrowing Entity Requirements, see 14 DSCR Program and 14.3.5 Borrowing Entities. To vest ownership in an Entity but close in the name of a natural person, the following requirements must be met:

- Business purpose and activities are limited to ownership and management of real estate.
- Entity limited to a maximum of 4 owners (aka members, partners, or shareholders).
- A minimum of 50% of the Entity ownership must be represented as borrowers on the loan, each completing a 1003 as applicants.
- The loan application, credit report, income (if applicable), and assets for each Entity owner will be used to determine qualification and pricing.
- Each Entity owner must receive notice of the loan and its terms prior to closing.

The following Entity documentation must be provided:

- Entity Articles of Organization, Partnership, and Operating Agreements (if applicable)
- EIN-Employer Identification Number (or W-9 with acceptable third-party verification)
- Certificate of Good Standing
- Certificate of Authorization for the person executing all documents on behalf of the Entity

Documents must be completed and signed by each individual applicant (in their capacity as an individual only) that is an owner of the vesting Entity, as follows:

- Business Purpose & Occupancy Affidavit – signed by each Entity owner represented (both submission and closing) and guarantors, when applicable.
- Loan Application (1003) – Completed and signed by each Entity owner represented and guarantors, when applicable. 1003 section labeled "Title will be held in what Name(s)" should be completed with only the Entity name.
- Disclosures (GFE, TIL, Notice of Intent to Proceed, Servicing Disclosure, etc.) – completed and signed by each Entity owner represented and guarantors, when applicable.
- Closing Disclosure – completed and signed by each Entity owner represented and guarantors, when applicable.
- Other Closing Documents (Final TIL, Business Purpose & Occupancy Affidavit, etc.) – completed by Entity owner represented and guarantors, when applicable.
- Note – signed by each Entity owner represented and guarantors, when applicable.
- Deed of Trust/Mortgage and all attached Riders – must be completed by the authorized owner(s) of the Entity who can legally sign and bind the Entity that is the vested owner of the subject property.

13.3.13 MULTIPLE FINANCED PROPERTIES AND DEFY EXPOSURE

There is no limit on the number of other properties borrowers may currently have financed. Defy Mortgage exposure may not exceed $10M aggregate with a maximum of 10 loans for each individual borrower. Exceptions to this policy will be reviewed on a case-by-case basis.

13.3.14 INELIGIBLE BORROWERS

The following borrowers are not eligible:

- Borrowers with diplomatic immunity or otherwise excluded from U.S. jurisdiction
- Residents of any country not permitted to transact business with US companies are ineligible (as determined by any U.S. government authority)
- Trusts or Land Trusts (trusts may qualify for ownership vesting only)
- Borrowers less than 18 years old
- Loans to employees of Broker
- First-Time Home Buyers

13.4 CREDIT ANALYSIS

13.4.1 CREDIT REPORT

A credit report is required for every borrower or guarantor. The credit report should provide merged credit information from the 3 major national credit repositories. A valid Social Security number (SSN) is required for all borrowers or guarantors on the loan. Either a three-bureau merged report or a Residential Mortgage Credit Report (RMCR) is required. The credit report should include verification of all credit references provided on the loan application and must certify the results of public record searches for each city where the individual has resided in the last 2 years.

13.4.1.1 AGE OF CREDIT REPORT/CREDIT DOCUMENTATION

All credit documentation, including the credit report, may not be more than 90 days old at the time of closing.

13.4.1.2 FRAUD ALERTS

The three national credit repositories have developed automated messaging to help identify possible fraudulent activity on a credit report. Examples of fraud alerts include:

- Initial 90-day Fraud Alert
- Extended Fraud Alert
- Active-Duty Alert
- HAWK Alert

All Fraud Alerts must be properly addressed and resolved prior to submitting the loan to underwriting. The actions must be reasonable and compliant with applicable laws. An underwriting decision cannot be made without full resolution of the alert.

13.4.1.3 CREDIT REPORT SECURITY FREEZE

The credit report used to evaluate a loan may not reflect a security freeze and must be resolved prior to an underwriting decision. If a borrower unfreezes his or her credit after the date the original credit report was ordered, a new three-bureau merged report must be obtained to reflect current and updated information from all repositories.

13.4.1.4 GAP CREDIT REPORT

A gap credit report is not required on DSCR loans.

13.4.2 CREDIT SCORE REQUIREMENTS

To determine the Representative Credit Score for all borrowers or guarantors, select the middle score when 3 agency scores are provided and the lower score when only 2 agency scores are provided. Each borrower or guarantor must have a valid score from at least 2 of the following 3 agencies: Experian (FICO), Trans Union (Empirica), and Equifax (Beacon). Only scores from these agencies are acceptable. Additional borrowers or guarantors on the loan must have at least one valid score of 660 or greater. The highest Representative Credit Score for all borrowers or guarantors is used as the qualifying score.

13.4.3 TRADELINE REQUIREMENTS

Standard Tradelines	**Investment:**
3 tradelines reporting for 12 or more months with activity in the last 12 months or 2 tradelines reporting for 24 or more months with activity in the last 12 months or 1 tradeline with 36 or more months with activity in the last 12 months or Credit report reflects scores from all three bureaus and the qualifying score is 700 or higher. 0x60 for the most recent 12 months. Applies only to tradelines being used to meet the minimum number of trades. Tradeline must be a mortgage account or an installment account.	As above.

All borrowers or guarantors must meet the minimum tradeline requirements under the DSCR Program. To qualify as a valid tradeline, the following requirements apply:

- The credit line must be reflected on the borrower’s credit report.
- The account must have activity in the past 12 months and may be open or closed.
- Tradelines used to qualify may not exceed 0x60 in the most recent 12 months.
- A 12- or 24-month housing history not reporting on credit may be used as a tradeline.

Credit lines on which the borrower or guarantor is not obligated to make payments are not acceptable for establishing a minimum history. Examples of unacceptable tradelines include loans in a deferment period, collection or charged-off accounts, accounts discharged through bankruptcy, and authorized user accounts. Student loans can be counted as tradelines as long as they are in repayment and are not deferred.

13.4.4 EVIDENCE OF PRIMARY RESIDENCE

All borrowers or guarantors must own or rent a primary residence. Evidence of primary occupancy is required. Borrowers living rent free may be considered on a case-by-case basis with compelling evidence of continued occupancy. Underwriting reserves the right to request additional documentation if occupancy concerns are present.

13.4.5 MORTGAGE AND RENTAL PAYMENT VERIFICATION

See the Defy DSCR Matrix for max allowable housing payment lates. The following requirements apply for mortgage and rental verifications:

- The mortgage/rental history on both the borrower's or guarantor's primary residence and the subject property are required (if applicable, i.e., refinance).
- The mortgage/rental history for the primary and/or subject property must be current at time of application and closing.
- Any derogatory mortgage history reporting on the credit report and/or provided within the loan file will be factored into the overall housing history rating and must be brought current.
- Mortgage histories for other REOs not reporting on credit are not required.
- Minimum application requirements include the disclosure of all borrower-owned or guarantor-owned REO and associated mortgages reporting on credit. PITIA from the subject property must be documented; however, PITIA from additional REO is not required to be verified.

Mortgage and rental payments that are required to be verified but not reflected on the original credit report must be documented via an institutional Verification of Rent or Verification of Mortgage (VOR/VOM). A combined total of all late mortgage and rental payments in the past 12 months must be used to determine the housing history. If the borrower or guarantor is making payments to an individual or interested party, 12 months of cancelled checks or bank statements must be obtained. A VOR/VOM is not required but may be requested for clarification.

13.4.6 ROLLING LATE PAYMENTS

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

13.4.7 PAST DUE ACCOUNTS

Past due consumer debts can be no more than 30 days past due at time of closing.

13.4.8 DELINQUENT CREDIT BELONGING TO EX-SPOUSE

Delinquent credit belonging to an ex-spouse can be excluded from the credit evaluation when all of the following apply:

- Borrower or guarantor provides a copy of the divorce decree or separation agreement which shows the derogatory accounts belong solely to the ex-spouse
- Late payments occurred after the date of the divorce or separation
- Evidence of title transfer prior to any delinquent debt must be provided if debt is a mortgage, and evidence of buyout as part of court proceedings

Collection accounts assigned to an ex-spouse may be excluded from aggregate collection totals with a divorce decree or separation agreement assigning the account solely to the ex-spouse.

13.4.9 LAWSUIT/PENDING LITIGATION

If the application, title, or credit documents reveal that the borrower or guarantor is presently involved in a lawsuit or pending litigation, a statement from the borrower's or guarantor's attorney is required. The statement must explain the circumstances of the lawsuit or litigation and discuss the borrower's or guarantor's liability and insurance coverage. A copy of the complaint and answer may also be needed. The title company closing the loan must be informed of the lawsuit or litigation and provide affirmative coverage of our first lien position.

13.4.10 CONSUMER CREDIT COUNSELING SERVICE (CCCS)

Consumer Credit Counseling must be completed for a minimum of 24 months from closing date.

13.4.11 COLLECTIONS AND CHARGE-OFFS

The following accounts may remain open:

- Collections and charge-offs < 24 months old with a maximum cumulative balance of $2,000
- Collections and charge-offs ≥ 24 months old with a maximum of $2,500 per occurrence
- Collections and charge-offs that have passed beyond the statute of limitations for that state (supporting documentation required)
- All medical collections

Collection and charge-off balances exceeding the amounts listed above must be paid in full. Note: Cash-out proceeds from the subject transaction may not be used to satisfy charge-offs or collections that are not encumbered to the property.

13.4.12 JUDGMENTS AND TAX LIENS

All judgments or liens affecting title must be paid as title must insure our lien position without exception. Court-ordered judgments may remain open when one of the following options is met:

- The amount is the lesser of $5,000 per occurrence or 2% of the loan amount; or
- Judgments or liens have passed beyond the statute of limitations for that state (supporting documentation required); or
- The borrower or guarantor is currently in a repayment agreement with the creditor and a minimum of 3 months has elapsed on the plan. Evidence of timely payments for the most recent 3 months to be provided.

Outstanding state and federal tax liens or delinquent obligations may remain open on purchase transactions. All of the following requirements must be met:

- A copy of the repayment agreement is obtained; and
- A minimum of 3 months has elapsed on the plan and evidence of timely payments for the most recent 3 months is provided; and
- The title company must provide written confirmation confirming (a) the title company is aware of the outstanding tax lien, and (b) there is no impact to first lien position.

Note: Cash-out proceeds from the subject transaction may not be used to satisfy judgments or tax liens that are not encumbered to the property.

13.4.13 HOUSING EVENTS

A Housing Event is any one of the following events listed below:

- Foreclosure
- Deed-in-Lieu
- Short Sale
- Modification
- 1x120 mortgage history

Housing Events must be seasoned for a minimum of 36 months from loan closing. Seasoning of a foreclosure, deed-in-lieu, or short sale is measured from the date of completed sale or final property transfer. The Housing Event must be completed prior to loan closing with no outstanding deficiency balance remaining. For a 120-day mortgage late, seasoning is from the date the mortgage was brought current. Seasoning for a modification is from the date the modification was executed. If the property was surrendered in a Chapter 7 bankruptcy, the bankruptcy discharge date is used for seasoning. Bankruptcy papers may be required to show the property was surrendered. The foreclosure action is not required to be fully complete. A mortgage modification resulting in any of the attributes listed below is subject to Housing Event seasoning guidelines:

- Forgiveness of a portion of principal and/or interest on either the first or second mortgage
- Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness
- Conversion of any portion of the original mortgage debt to a “soft” subordinate mortgage
- Conversion of any portion of the original mortgage debt from secured to unsecured

13.4.14 BANKRUPTCY

All bankruptcies must be discharged or dismissed for a minimum of 36 months from closing date.

13.5 EMPLOYMENT/INCOME ANALYSIS

There is no employment verification or income analysis under the DSCR Program.

13.6 RATIOS AND QUALIFYING

A Debt-Service Coverage Ratio (DSCR) must be calculated for the subject property. See the Defy DSCR Matrix for the minimum Debt-Service Coverage Ratio. For interest-only loans, the DSCR calculation allows for the use of the interest-only payment including escrows. When DSCR < 1.00, the following restrictions apply:

- Short-term rental income is not allowed.
- Vacant or unleased properties are ineligible for refinance transactions.
- Rural properties are not eligible.

13.6.1 LONG-TERM RENTAL INCOME

The DSCR calculation using long-term rental income is as follows: **Debt-Service Coverage Ratio = Gross Income / Proposed PITIA** To calculate Gross Income, use the lower of the (a) executed lease agreement or (b) market rent from FNMA Form 1007 or Form 1025, as applicable. If the executed lease agreement reflects a higher monthly rent, it may be used in the calculation when evidence of receipt of the higher amount for the 3 most recent consecutive months is provided.

13.6.2 SHORT-TERM RENTAL INCOME

Short-term rentals are properties which are leased on a nightly, weekly, monthly, or seasonal basis. Short-term rental income received directly from a home-sharing service (such as Airbnb or VRBO) or property management service may be used for qualification. A Property Guard Short-Term Rental Compliance Report is required on all short-term rental transactions.

- The report must confirm that the borrower has all permits necessary to operate the property as a short-term rental.
- If a permit is required, a copy of the permit must be obtained on refinance transactions to ensure compliance with local regulations.
- The report must confirm that the city, county, and state jurisdictions allow short-term rentals.
- If the property may not be operated legally as a short-term rental, short-term rental income is not allowed.

13.6.2.1 PURCHASE TRANSACTIONS USING SHORT-TERM RENTAL INCOME

Short-term rental income is allowed on purchase transactions. A FNMA Form 1007 is not required or utilized for rental income. In addition to the Property Guard Report, an AirDNA Property Earning Potential Report is required to determine monthly rental income utilizing the following information:

- Occupancy Rate: minimum 60%
- Annual Projected Revenue: amount used to calculate short-term rental income

The following restrictions apply to purchase transactions utilizing short-term rental income:

- DSCR ≥ 1.15.
- 5% LTV reduction required (max 75% LTV).
- Minimum 720 FICO.
- First-Time Investors are not allowed.
- Borrower must document short-term rental management experience in last 12 months.
- 2-4 unit properties and rural properties are not allowed.

The DSCR calculation for purchase transactions is as follows: **Debt-Service Coverage Ratio = (AirDNA Projected Annual Revenue x 80%) / 12 Proposed PITIA**

13.6.2.2 REFINANCE TRANSACTIONS USING SHORT-TERM RENTAL INCOME

Short-term rental income is allowed on refinance transactions. In addition to the Property Guard Report, the following documentation must be provided:

- 12 months evidence of receipt of short-term rental income via the home-sharing service, property management company, or bank statement deposits clearly evidencing short-term rental deposits.
- Receipt must identify the subject property/unit and all rents collected for the previous 12 months. Rental income used is net of any management or vendor fees.
- Bank statement deposits must be supported by rental records for subject property/unit to support the monthly rental activity for the previous 12 months.
- Property ownership report obtained and proof of property listing on provider website.
- Appraisal Form 1007 or a short-term rental narrative prepared by the appraiser reflecting short-term market rents.
- Short-term rental market data may include multiple sources such as Airbnb, VRBO, AirDNA, etc. AirDNA is acceptable when accompanied by additional sources listed above.

The lower of the documented 12 months receipt average OR market rent will be used to calculate short-term rental income. The DSCR calculation for refinance transactions is as follows: **Debt-Service Coverage Ratio = Average Monthly Gross Income * 80% Proposed PITIA**

13.6.3 ADJUSTABLE-RATE QUALIFYING

For all ARM loans, the note rate is used to determine the qualifying PITIA. See the DSCR Matrix for margin, index, and other restrictions. For I/O ARM loans, guidelines in 13.6.4 Interest-Only Qualifying should be followed.

13.6.4 INTEREST-ONLY QUALIFYING

Interest-only loans qualify using the interest-only payment, including escrows, to determine qualifying ITIA. See the DSCR matrix for additional restrictions.

13.7 ASSET ANALYSIS

Verification of assets is required for purchase or refinance transactions to evidence sufficient funds to close and reserves. See 10 Asset Analysis for any asset requirements not specifically addressed in this section.

13.7.1 RESERVES

The DSCR Program requires reserves for the subject property PITIA (or ITIA, if applicable). See matrix for minimum reserve requirements for the DSCR Program. Reserves are not required for additional real estate owned.

13.7.2 ASSET DOCUMENTATION

Assets to be used for down payment, closing costs, debt payoff, and reserves must be seasoned for 30 days from closing date or sourced. Assets must be verified with one of the following:

- Account statements for the most recent month or quarter indicating opening and closing balances and reflecting a consecutive 30 days of asset verification.
    - Account statements must provide borrower or guarantor as account holder, the account number, statement date and time period covered, and the current balance in U.S. dollars.
    - If account summary page provides the required information, additional pages of the statement are not required.
- Written Verification of Deposit (VOD), completed by the financial institution:
    - Must include the current and average balances for the most recent month.
    - Large disparities between the current balance and the opening balance will require additional verification or supporting documentation.

Note: Large and/or unusual deposits may require additional documentation including letter of explanation, third party documentation, etc.

13.7.3 GIFT FUNDS

Gift funds can be used for down payment, closing costs, and reserves on the DSCR Program after the borrower or guarantor has documented a 10% minimum borrower contribution. A gift can be provided by:

- a relative, defined as the borrower's or guarantor's spouse, child, or other dependent, or by any other individual who is related to the borrower or guarantor by blood, marriage, adoption, or legal guardianship
- a non-relative that shares a familial relationship with the borrower or guarantor defined as a domestic partner (or relative of the domestic partner), individual engaged to marry the borrower, guarantor, former relative, or godparent

A signed gift letter is required to provide all of the following information:

- Donor's name, address, phone, and relationship to borrower or guarantor; and
- Dollar amount of gift; and
- Date funds were transferred; and
- Donor's statement that no repayment is expected.

Sufficient funds to cover the gift must be verified as either currently in the donor's account or evidence of transfer into the borrower's or guarantor's account. Acceptable documentation includes any of the following:

- Copy of the donor's check and the borrower's or guarantor's deposit slip
- Copy of the donor's withdrawal slip and the borrower's or guarantor's deposit slip
- Copy of the donor's check to the closing agent
- Evidence of wire transfer from donor to borrower or guarantor
- Settlement statement showing receipt of the donor's check

When the funds are not transferred prior to closing, it must be documented that the donor gave the closing agent the gift funds in the form of a certified check, a cashier's check, money order, or wire transfer.

13.7.4 BUSINESS ASSETS

Business assets are an acceptable source of funds for down payment, closing costs, and reserves. Business assets may come from either the Borrowing Entity or a secondary business owned by one or more of the borrowers or guarantors. If the assets being used are from a secondary business, the borrowers or guarantors on the loan must have a minimum of 25% 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.

13.8 PROPERTY

See 11 Property for any property guidelines not specifically addressed in this section.

13.8.1 ELIGIBLE PROPERTY TYPES

- Single-Family Residence – Yes
- Planned Unit Development (PUD) – Yes
- Townhomes – Yes
- 2–4 Unit Multi-Family Properties* – Yes
- Condominium (low-rise and high-rise) – Yes
- Site Condominium – Yes
- Non-Warrantable Condominiums – Yes
- Assisted Living/Continuing Care Facilities – No
- Boarding Houses – No
- Condotels or Condo Hotels – No
- Co-operative Units – No
- Farms or Hobby Farms – No
- Log Homes – No
- Manufactured Homes – No
- Mixed-Use Properties – No
- Modular Homes – No
- Properties Subject to Rent Control Regulations – No
- Unique Properties (Earth Homes, Berm Homes, Dome Homes, Barndominiums, Shouses, etc.) – No

13.8.2 AGE OF APPRAISAL AND APPRAISAL UPDATES

For loans under the DSCR Program, appraisals are valid for 120 days and are not eligible for appraisal updates.

13.8.3 APPRAISAL REVIEW PROCESS

All transactions under the DSCR Program require a Clear Capital CDA (or like product), field review, or FNMA Collateral Underwriter/FHLMC Loan Collateral Advisor Review with a score of 2.5 or less (must include a copy of the Submission Summary Report). The following transactions require a 2nd full appraisal in lieu of an appraisal review product listed above:

- Loan amounts > $2,000,000
- Cashout transactions with loan amounts > $1,500,000

13.8.4 APPRAISAL REVIEW TOLERANCE

A 10% tolerance is permitted for all secondary review products. If the review product does not provide a value, an additional review product of a higher-level must be ordered. If the review product value is more than 10% below the appraised value, the lower of the two values must be used. If the tolerance is exceeded, the Broker or Defy may choose to order an additional review product of a higher-level review. The original appraised value may then be used if the additional review product value is within 10% of the appraised value. If the variance is greater than 10%, a second full appraisal is required. If two appraisals are required, the lower of the two values or the purchase price must be used.

13.8.5 RURAL PROPERTIES AND ACREAGE

A property indicated by the appraisal as rural, or containing any of the following characteristics, is typically considered a rural property:

- Neighborhood is less than 25% built-up.
- Area around the subject is zoned agricultural.
- Photographs of the subject show a dirt road.
- Comparables are more than 5 miles away from the subject.
- Subject is located in a community with a population of less than 25,000.
- Distance to schools and/or amenities are greater than 25 miles.
- Subject property and/or comparables have lot sizes greater than 10 acres.
- Subject property and/or comparables have outbuilding or large storage sheds.

Rural properties must comply with all of the following criteria:

- Maximum acreage is 5, including road frontage and subject property.
- Purchase transactions only.
- Long-term rental income only.
- DSCR > 1.0.
- Max 65% LTV.
- Single Family Residences and condominiums only.
- Residential use only.
- Property must be located in a market where rental properties are prevalent. Locations may include but are not limited to mountain towns, beach communities, waterfront properties, or other tourist/recreational destinations.
- At least two comparable recent sales and rentals must be located within 5 miles of subject property.
- Property must not be agricultural or provide an agricultural source of income to the borrower.
- Lot size and acreage must be typical for the area and similar to surrounding properties.
- Property cannot be subject to idle acreage tax benefit or other tax incentive program.
- Present use as per the appraisal must be the “highest and best use” for the property.

- Condition, quality, and use of outbuildings should be considered in determining the market value of the subject property when the appraiser clearly supports the adjustments with similar comparable information.

Utilize the following tool to determine if a property is rural: https://www.consumerfinance.gov/rural-or-underserved-tool/.

13.9 INSURANCE

See 12 Property Insurance and 13 Title Insurance for complete requirements.

13.9.1 RENT LOSS INSURANCE

Rent Loss Insurance for the subject property is required and must equal at least 6 months PITIA for the subject property. Blanket policies covering the subject property are permitted.

- If Rent Loss coverage is less than 6 months, the deficiency balance may be comprised of additional subject property PITIA reserves.
- Example: if the required reserves for the transaction are 3 months and the required Rent Loss coverage is 6 months, the total PITIA requirement for the transaction is 9 months. If the Rent Loss coverage for the property is insufficient at 4 months, the borrower can provide evidence of 5 months PITIA reserves to complete the 9 months PITIA requirement.