



NQM FUNDING, LLC

NON-QM

FLEX

GUIDELINES

EFFECTIVE DATE: NOVEMBER 2, 2023 - FINAL

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INTRODUCTION

NQM Funding, LLC was organized in the State of Florida on June 24, 1996, and is a licensed mortgage lender. Our Corporate headquarters are located at 4800 North Federal Highway, Building E, Suite 200 in Boca Raton, FL 33431.

The business we generate is primarily through relationships with lenders, brokers, real estate agents, and builders. We promote customer relationships and have elected to recruit and hire a team of mortgage professionals with existing relationships and are seeking to work for a company with a strong back-end support system and experienced operations and secondary market acumen.

FAIR LENDING STATEMENT

NQM Funding, LLC believes making a loan to a borrower is more than just a business transaction. NQM Funding, LLC wants to make loans that are good for the borrower as well as compliant with the housing industry laws and regulations.

Steps taken to ensure compliance with responsible lending practices include but are not limited to:

- Spot checks during Production which may occur at any time.
- Validation during the closing process regarding correct disclosures, LE, fees, etc. to comply with RESPA requirements are completed during process.
- HMDA reporting is completed as required and reviewed periodically throughout the year to ensure no negative or predatory trends are emerging.
- Training calls and emails as noted in this plan are utilized to communicate requirements.

RESPONSIBLE LENDING STATEMENT

The primary focus of this lending program is the borrower's ability to repay the mortgage obligation. Loans originated or purchased by NQM Funding, LLC should be affordable to the borrower in his or her pursuit of homeownership.

Under the general Ability-to-Repay (ATR) standard, lenders must make a reasonable, good-faith determination that the consumer has a reasonable ability to repay the loan. Lenders must verify information using third-party records that provide reasonably reliable evidence of income or assets.

If a loan is subject to the ATR rules under the Federal Truth in Lending Act ("TILA"), lenders must consider eight underwriting factors to comply:

- Current or reasonably expected income or assets (other than the value of the property that secures the loan) that the consumer will rely on to repay the loan.
- Current employment status (if you rely on employment income when assessing the consumer's ability to repay)
- Monthly mortgage payment for this loan. You calculate this using the introductory or fully indexed rate, whichever is higher, and monthly, fully amortizing payments that are substantially equal.
- Monthly payment on any simultaneous loans secured by the same property.
- Monthly payments for property taxes and insurance that you require the consumer to buy, and certain other costs related to the property such as homeowner's association fees or ground rent.
- Debts, alimony, and child support obligations
- Monthly debt-to-income ratio or residual income, that you calculated using the total of all of the mortgage and non-mortgage obligations listed above, as a ratio of gross monthly income

- Credit history

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

ZERO TOLERANCE FRAUD

All employees, independent contractors, brokers and lender partners of NQM Funding, LLC are fully responsible for the content and quality of each application and all data on those applications taken and submitted to NQM Funding, LLC

The price paid by those who participate in or are impacted by loan fraud is even more costly, impacting borrowers, family members, neighborhoods, and the nation's overall economy. If a borrower cannot legitimately qualify for a loan or afford a particular property, you are not doing them a service by encouraging or enabling them to buy a property they cannot afford and may ultimately lose to foreclosure. Closing a loan for a borrower, without verifying they can afford it, is considered predatory lending.

Some of the potential consequences that may be incurred by an employee or company found or suspected to be a participant in a fraudulent loan transaction include:

- Criminal prosecution including time in jail.
- Loss of License(s)
- Loss of lender access due to industry exchange of information between lenders, mortgage insurance companies including submission of information to investors (Fannie Mae/Freddie Mac), police agencies, and state licensing agencies.
- Loss of approval status and potential civil action by NQM Funding, LLC
- Civil action by applicant/borrower or other parties to the transaction

NQM Funding, LLC will not tolerate loan fraud. NQM Funding, LLC stands behind the quality of its loan production, and expects any of our associates and employees to do the same. NQM Funding, LLC practices a zero-tolerance policy of any predatory lending, loan fraud and/or misrepresentation. We perform pre-funding as well as post-funding file reviews and data integrity reverification to ensure the loan meets quality standards.

GENERAL PROGRAM INFORMATION

PROGRAMS

NQM Funding, LLC offers several loan programs. See the NQM Funding, LLC Matrices for complete details:

- Select Prime (Full Doc/Alt Doc)
- Select Prime ITIN (Full Doc / Alt Doc)
- Select Prime Express (Full Doc / Alt Doc)

- Select Prime Super Jumbo (Full Doc/Alt Doc)
- Select Prime 2nd Lien
- Foreign National Program
- Investor DSCR Program
- Investor Mixed Use 2-8 Units and Residential 5-10 Units

2 - 1 TEMPORARY BUYDOWN

BACKGROUND

A 2-1 buydown is a mortgage loan option in which the seller of the home or the builder, reduces the homebuyer's interest rate for the first two years of the loan. In year one, the interest rate is 2% less than the original note rate. In year two, the interest rate is 1% less. The seller or builder covers the difference between what the payments typically would be and the adjusted, bought-down rate.

Lender Paid or 3rd Party Buydown (Excluding Real Estate Agents, Brokerages, Borrower, or relatives) are permitted for Correspondent Clients only.

2-1 Temporary Buydowns are eligible with Select Prime and Select Prime Express programs for Owner Occupied, Second Home and Investment Properties.

REQUIREMENTS

Minimum eligibility requirements:

- Purchase Transactions only
- Minimum credit score 680
- Max LTV 80%
- Max DTI 50%
- Qualify off full payment (Permanent Note Rate, rather than the terms of the buydown)
- Temporary Buydowns must be considered in the Interested Party Limitations. See [Interested Party Contributions](#) for limitations.
- Seller or Builder Funded buydowns permitted.
- Lender Paid or 3rd Party Buydown (Excluding Real Estate Agents, Brokerages, Borrower, or relatives) are permitted for Correspondent Clients only.

Other buydown requirements:

- Buydowns are considered a credit and must be disclosed on the LE/CD as such.
- Buydown must be disclosed in the sales contract.
- Buydown is available for all occupancy types
- Buydown is only available with a 30-year Fixed Rate Term
- Available for **Full Doc, Bank Statement, ITIN and DSCR (1-4 Units)** documentation types only.
- Loans must be locked indicating the buy-down
- An executed buydown agreement between the parties is required in the loan package
- The Mortgage Instruments must reflect the permanent payment terms, not the terms of the buydown. If the terms of the buydown are reflected, the loan is ineligible for origination or purchase.
- All other terms and details (including Buydown Agreement) must follow [FNMA guidelines B2-1.4-.04](#).

Ineligible Transactions:

- The Temporary 2-1 Buydown Purchase Option is not allowed for DSCR Mixed Use, Foreign National ..

SELECT PRIME EXPRESS OPTION

GENERAL REQUIREMENTS (DU)

- Use of Desktop Underwriter (DU) with Non-QM Products
- Eligible DU Findings – Approve/Eligible and Approve/Ineligible. Ineligible results are only permitted for items such as loan size, LTV limits, loan purpose or feature, i.e., Interest Only). DU cannot be ineligible for a credit event or due to risk factors.
- Extenuating circumstance guidelines for derogatory credit are not eligible, i.e. cannot instruct DU to disregard information on credit report to receive an Approve/Eligible.
- Seller negotiated criteria/variances with Fannie Mae are not eligible.
- Housing history may be documented according to the AUS findings.
- Housing history must be 0x30x12.
- Non-Delegated Correspondents are responsible for providing the AUS with their loan submission on Express files

INCOME AND DTI REQUIREMENTS (DU)

- Max DTI: 50%
- Must meet the income documentation standards of the published eligible products, Non-QM income options eligible with the exception of the following:
 - P&L Only not eligible.
 - One Year Self Employment option for licensed professionals not eligible.

NON-OCCUPANT CO-BORROWER (DU)

Non-occupant co-borrowers are allowed under the Select Prime and **Select Prime Express**.

The following Express 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 a relative
- Max 90% LTV
- Max 43% DTI (total DTI)
- When using Express, the occupying borrower and non-occupant co-borrower ratios may be blended.
- Max loan amount \$1,000,000
- Still use the primary wage earners score, whether it be the occupant or the non-occupying coborrower

RESERVE REQUIREMENTS (DU)

- Loans <= \$2,000,000 follow DU Findings Report
- Loans > \$2,000,000 must meet product reserve requirements.

APPRAISAL REQUIREMENTS (DU)

- Appraisal waiver not eligible
- All files must include a standard appraisal and review product, or two appraisals based upon loan amount.

SELECT PRIME SUPER J UMBO

Refer to Super Jumbo Program Matrix for LTVs, minimum and maximum loan amounts, appraisal requirements, etc. The sections below outline the overlays that apply to the Super Jumbo Program.

Note: Super Jumbo loans with strong compensating factors, requiring exceptions must go through the standard exceptions process which includes credit committee review. Turnaround time averages 7 business days.

SUPER J UMBO – MINIMUM CREDIT SCORE REQUIREMENTS

- **Min Score:** 720 for all borrowers on the loan.

SUPER J UMBO – CREDIT EVENT SEASONING

- **Credit Event Seasoning:** > 48 months

SUPER J UMBO – MAX DTI

- **Max DTI:** 38%

SUPER J UMBO – OCCUPANCY

- **Occupancy:** Primary Residence Only

SUPER J UMBO – HOUSING HISTORY

- **Housing History:** 0x30x24
 - Borrowers who own their primary residence free and clear are considered to have an acceptable housing history.

SUPER J UMBO – INELIGIBLE BORROWERS

- **Ineligible Borrowers:**
 - Self-Employed Borrower/Business with < 2 years in operation/production.
 - Non-Occupant Co-Borrowers
 - First Time Home Buyers
 - ITIN

SUPER J UMBO – BANK STATEMENT DOCUMENTATION

- **Bank Statement Documentation:** Options for Self-Employed Borrower with < 2 years of employment or business operations are not permitted for Super Jumbo.

SUPER J UMBO – ASSET UTILIZATION AND CALCULATION

- **Asset Utilization:** allowed as supplemental income to primary employment or other source of income when DTI prior to use of assets is $\leq 50\%$.
- **Asset Utilization Calculation:** qualified assets (sourced and seasoned for 4 months) divided by 84 months.

SUPER J UMBO – CASH-OUT LIMITS

- Max Cash-Out (cash in hand): \$1,500,000

SUPER J UMBO – PROPERTY TYPES

- **Property Types:**
 - SFD/PUD/Condo (Warrantable/non-Warrantable) 1-Unit
 - Max 2 acres
 - Farms/rural properties are not permitted.

SUPER J UMBO – RESERVES

- **Reserves:**
 - $> \$3.5\text{M}$ to $\$4.0\text{M}$: 12 months PITIA
 - $> \$4.0\text{M}$ to $\$5.0\text{M}$: 18 months PITIA
 - Cash-Out proceeds may not be used to meet reserves.

SUPER J UMBO – GIFT FUNDS

- **Gift Funds:** Permitted on purchase transactions, after 20% minimum contribution towards down payments, closing costs, prepaids, and reserves are met from borrower's own funds.

SUPER J UMBO – INELIGIBLE TRANSACTIONS

- **Express (DU):** Not permitted.
- **Escrow Waivers:** Not permitted. An escrow account for impounds of property taxes, homeowners and all applicable required insurance coverage must be set-up and collected along with the monthly mortgage payments (PITIA or ITIA).

SELECT PRIME 2ND LIEN

CLOSED END FIXED RATE SECOND MORTGAGE:

- Fixed rate
- The following terms are available: 15 year, 20 year, 25 year, 30 year

- Minimum Loan Amount \$125,000
- Maximum Loan Amount \$500,000
- Primary Residence and Second Homes
- Purchase, Rate/Term Refinance and Cash Out options
- Not Assumable
- TPO must be approved to deliver second liens

SECOND LIEN – HIGH COST THRESHOLDS

NQM Funding, LLC traditionally does not permit and will not originate High-Cost (HOEPA/Section 32) Loans.

On Second Liens only, NQM Funding, LLC will consider a loan that is considered High Cost solely due to exceeding the High Cost APR Threshold, provided the Section 32 Loan Disclosure was provided to the Borrower(s) no later than three (3) days prior to closing.

NQM Funding, LLC will not originate or purchase a second lien when the points and fees test exceeds the 5% limitation. In addition, NQM Funding, LLC will not originate or purchase a second lien that fails any State High Cost test.

Refer to the following sections in this guide:

- [Prepayment Penalties, Points and Fees](#)
- [State and Federal High Cost Loans](#)

SIMULTANEOUS SECOND LIEN WITH AGENCY-ELIGIBLE FIRST LIEN

- The first and second liens close concurrently.
- NQM Funding, LLC must originate both first and second liens in the retail channel. In the TPO channel, evidence of a clear to close on the first lien must be provided prior to NQM Funding, LLC issuing the clear to close on the second lien when NQM Funding, LLC is not originating the first lien.
- If 1st Mortgage is an Adjustable Rate Mortgage, Borrower must qualify using the greater of the fully indexed rate or the Note rate.

STAND ALONE SECOND LIEN

- NQM Funding, LLC closes a second lien behind an existing first lien.
- First lien must meet the eligible first lien parameters listed below.

ELIGIBLE FIRST LIEN PRODUCTS WHEN ORIGINATING A SECOND LIEN

A copy of the first lien note is required to evidence:

- First mortgage is eligible, i.e., copy of DU approval and loan approval for simultaneous transactions.
- Must have a minimum remaining term of five (5) years at time of close (60 payments left).

- Interest Only (I/O) First Mortgage must be qualified at the greater of the fully amortizing P&I payment or Note rate.
- If interest only, the remaining term must be a minimum of five (5) years (60 payments left).
- Financing must not permit the note holder to “call” the loan due within the first five years following the loan closing.
- On a stand-alone second, if the mortgage statement or credit report has sufficient information to determine the payment and the terms, a copy of the first lien note is not required.
- For simultaneous transactions, the following is required in the second lien file:
 - Copies of first lien note and mortgage/deed of trust.
 - Final Closing Disclosure for first lien transaction that corresponds with the final CD for the subject second lien.

INELIGIBLE FIRST LIEN PRODUCTS (BOTH SIMULTANEOUS AND STAND-ALONE TRANSACTIONS):

- A negative amortization feature.
- First with a balloon feature.
- Material modifications (loan amount, interest rate, final maturity, or product structure), regardless of seasoning.
- Amortization term greater than 40 years.
- Contract for Deed or Contract for Purchase.
- Privately held first lien.
- Loans with provisions prohibiting the placement of additional liens on the subject property.
- Loans with provisions for future advances.

SECOND LIEN – CASH-OUT SEASONING

- Cash-out with less than six (6) months seasoning is permitted, provided the LTV is based off the lesser of the purchase price or the appraised value.

SECOND LIEN – ELIGIBLE DOCUMENTATION TYPES

- 2 years Full Doc
- 24 months of personal bank statements with 2 months of business bank statements
- 24 months of business bank statements
- 24 month P&L prepared by a CPA or EA along with a minimum of 2 months of business bank statements
- 2 years 1099
- Asset Utilization not permitted

SECOND LIEN – ELIGIBLE BORROWERS

- Citizens
- Permanent Resident Aliens
- Non-Permanent Resident Aliens with a valid SSN
- Borrowers must meet all guideline requirements including the Minimum Tradeline Standards

SECOND LIEN – INELIGIBLE BORROWERS

- Non-Occupant Co-Borrowers are not permitted.

SECOND LIEN – ELIGIBLE PROPERTY TYPES

- Single Family Attached and Detached including PUD or Townhouse
- Warrantable and Non-Warrantable Condos
- See matrix for applicable LTV limitations.

SECOND LIEN – INELIGIBLE PROPERTY TYPES

- Multi-family properties
- [Rural Properties](#)
- Condotels
- All other ineligible property types as identified in [Property Eligibility](#) section of guidelines

SECOND LIEN – INELIGIBLE STATES

- MS, NY, TN and TX
- Refer to [State Restrictions](#)
- Cook, Kane, Peoria and Will Counties, IL

SECOND LIEN – APPRAISAL REQUIREMENTS

- Full Interior/Exterior Appraisal Required
- Must comply with [Appraisal Review](#) requirements.

SECOND LIEN – HOUSING HISTORY REQUIREMENTS

- 0x30x24 on all mortgages

SECOND LIEN – HOUSING EVENT AND BANKRUPTCY SEASONING REQUIREMENTS

- 4 years must have elapsed from either a housing event or prior bankruptcy
- Seasoning is measured to note date of the new mortgage

SECOND LIEN – MAXIMUM DTI

- Max 50% on owner occupied transactions
- Max 43% on second home transactions

SECOND LIEN – GIFT FUNDS

- Gift funds permitted provide the borrower meets the following minimum contribution:
 - 5% for owner occupied transactions
 - 10% for second home transactions
- Gift funds not permitted to be used towards reserves

SECOND LIEN – RESIDUAL REQUIREMENTS

Minimum residual income thresholds apply to HPML loans or when the DTI is > 43% on OO and 2nd homes only using the following calculation:

- 1 person = \$1,500
- 2 persons = \$2,500
- Add \$150 per additional household member

SECOND LIEN - RESERVES

- 6 months reserves required
- Must cover the full PITIA
- Cash out may be used to satisfy requirement

DOCUMENTATION

Documentation types include [Full Documentation](#), [Bank Statement Documentation](#), and [1-Year Alternative Income Documentation](#).

AGE OF LOAN DOCUMENTATION

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

PRODUCTS

Effective July 19, 2023, the 7/6 SOFR ARM Products Fully Amortizing and Interest Only with a 30-Yr or 40-Yr Term have been discontinued.

PRODUCT	QUALIFYING RATE	TERM	I/O TERM	AMORT TERM	INDEX	CAPS
5/6 ARM	Higher of Fully indexed or Note Rate	360	N/A	360	30-day avg SOFR	2/1/5
5/6 ARM I/O	Higher of Fully indexed or Note Rate	360	120	240	30-day avg SOFR	2/1/5
5/6 ARM I/O	Higher of Fully indexed or Note Rate	480*	120	360	30-day avg SOFR	2/1/5
15 YR FIXED	Note Rate	180	N/A	180	NA	NA
30 YR FIXED	Note Rate	360	N/A	360	NA	NA
30 YR FIXED I/O	Note Rate	360	120	240	NA	NA
40 YR FIXED	Note Rate	480	N/A	480	N/A	N/A
40 YR FIXED I/O	Note Rate	480*	120	360	NA	NA

Note: Refer to Matrices for 40-Year Fixed and 40-Year Fixed I/O Max LTV restrictions effective 7/19/2023 for Select Prime Full & Alt Doc and Investor DSCR (1-4 Units).

FULLY AMORTIZING

- Qualifying Ratios are based on PITIA payment with the principal and interest payments amortized over the loan term.
- 5/6 Arm: (2/1/5 Cap Structure)
 - Qualifying Rate (All Doc Types): Qualify borrower(s) at the greater of the Fully Indexed Rate or Note Rate.
 - Floor Rate: Start Rate
- 15 Year Fixed.
- 30 Year Fixed.
- 40 Year fixed.
 - The borrower qualifies with a DTI of below 50% calculated using the payment under a 40-year amortization, and;
 - The borrower qualifies with a DTI of below 55% calculated using the payment under a 30-year amortization.
 -

INTEREST- ONLY

Non-DSCR Interest-only loans qualify using the fully amortized payment calculated over the fully amortizing period, based on the greater of the note rate or the fully indexed rate to determine qualifying PITIA. For example, a 40-year loan with a 10-year interest-only period would have a 30-year fully amortizing period. A 30-year loan with a 10-year interest-only period would have a 20-year fully amortizing payment.

DSCR loans will be qualified using the Interest Only payment based on the qualifying payment described below.

- Loan Terms: 360 or 480 Months.
- 5/6: (2/1/5 Cap Structure)
 - Qualifying rate (All Doc Types): qualify borrower(s) at the greater of the Fully Indexed Rate or Note Rate.
 - Interest-Only Period: 10 Year Interest-Only Period
 - Amortization Periods: 20 Year or 30 Year
 - Floor Rate: Start Rate
 - DSCR loans will be qualified using the Interest only payment based on the qualifying rate as described above
- 30 Year Fixed.
 - Qualifying rate (All Doc Types): qualify borrower(s) at the Note Rate.
 - Interest-Only Period: 10 Year Interest-Only Period followed by 20 Year Amortization.
 - Available on DSCR Only
 - DSCR Qualifies at the IO payment
- 40 Year Fixed.
 - Qualifying rate (All Doc Types): qualify borrower(s) at the Note Rate.
 - Interest-Only Period: 10 Year Interest-Only Period followed by 30 Year Amortization.
 - DSCR qualifies at the IO payment.

ARM MARGINS

- Select Prime 4.5
- DSCR 6.50
- Foreign National 6.50

ARM STATE ELIGIBILITY

- ARMs are temporarily not available in the following state: MS.

LOAN AMOUNTS AND LOAN-TO-VALUES

See applicable NQM Funding, LLC Matrix. Loan amounts \geq \$3,000,000 require mandatory second level review by required.

STATE RESTRICTIONS

- NQM Funding, LLC, non-licensed states: HI
- Effective 9/5/2023, Short Term Rentals located in New York City are ineligible for financing and/or purchase. Reference: NYC Office of Special Enforcement, Administrative Code under [Chapters 31](#) and 32 of Title 26 (“Housing and Buildings”) of the Administrative Code of the City of New York (Section 26-2101).
- Effective 7/1/2023, Foreign Nationals and Non-Permanent Resident Aliens from the Republic of China are ineligible in the State of Florida.
- See matrices for Program and/or LTV restrictions in the following state(s): MS and NY
- **NY Subprime:** Please see the [New York Subprime Loans](#) section for requirements.
- Ineligible for all TRID Loans in Cook, Kane, Peoria and Will Counties, IL. Does not apply to Correspondents.
- Flex Select 2nd Liens are ineligible in the states of NY and TX; plus the following IL counties: Cook, Kane, Peoria and Will. Does not apply to Correspondents.
- Refer to the [Prepayment Penalty Requirements by State](#) section in this guide and/or the NQM Funding, LLC Website and Matrices for additional information related to transaction specific restrictions.

ALTERNATIVE LOAN PROGRAM ANALYSIS

Loan applications are to be reviewed for possible approval under a traditional conventional conforming or FHA loan program available to the Client. NQM Funding, LLC staff will complete the *NQM Funding, LLC Alternative Program Analysis Form* to ensure borrowers are proceeding under the appropriate loan program

The following loans are exempt from this requirement:

- Business Purpose Loans
- Foreign National Loans
- Loans qualified using Alternative Documentation

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 in writing to NQM Funding, LLC on the *NQM Funding, LLC (NQMF) Exception Request Form* along with all supporting documentation must also be uploaded.

NQM Funding, LLC’s decision to allow or deny any exception request relates only to whether NQM Funding, LLC will fund the loan. The decision does not bind a client with respect to the underlying decision. Credit committee may grant a maximum 5% LTV exception but never more than 5% above the grade and never more than the max for the grade.

Top Compensating Factors for Exception Consideration (Package Minimum 2+ of the below)
<ul style="list-style-type: none"> • Significant Gross Disposable Income • DSCR Ratio Above 1.15% • Significant Reserves (beyond requirements) • DTI well below program max • Lengthy & deep credit history of solid performance • Demonstrated capacity to carry a heavy debt load with on time performance • FICO well above program minimum with solid performance • LTV well below Program Max w/ CDA value w/in 5% and C3 condition • Long, Clean Mortgage History • Significant time on the same job

PREPAYMENT PENALTIES, POINTS, AND FEES

Total points, fees, and APR may not exceed current state and federal high-cost thresholds. In addition, with the exception of Investment Property transactions, points and fees may not exceed the lesser of state regulations or 5%.

NQM Funding, LLC, will allow certain High Cost Second Liens. See the [Second Lien - High Cost Thresholds](#) Section for restrictions and requirements.

Prepayment penalties are required on investment property transactions were permitted by applicable law. Buydown options are available to reduce or remove prepayment penalties. See the appropriate NQM Funding, LLC Rate Sheet for details. Prepayment penalties on primary residence and second home transactions are prohibited.

Notes:

For wholesale, all Investment Property loan transactions purchased by NQM Funding, LLC are for Business Purpose only. This means that these loans do not follow TRID. Cash-Out purpose may not be used to pay off personal debt or be for personal use. A Business Purpose Certification must be signed by the Borrower(s).

NQM Funding, LLC may purchase TRID Non-Owned Occupied loans through the Correspondent channel and a prepayment penalty may be added (where permitted by state law).

States may impose different definitions of points and fees, rate/APR, or prepayment penalties than apply under HOEPA. States may also use different triggers in each category for determining whether a loan will be a "high-cost mortgage" (or equivalent terms) under state law. As a matter of policy, NQM Funding, LLC does not purchase or originate 1st Lien loans defined as high-cost mortgages (or equivalent terms) under Federal or state law, regardless of the basis for the loan's treatment as such.

PREPAYMENT PENALTY (PPP) REQUIREMENTS BY STATE

As of this Guide version listed below are the PPP requirements for Investment Properties:

- AK, MN, NH, NM: PPP not permitted.
- CO: Max permitted PPP 5% for 60 months; plus, Loan Product Choice Disclosure must be included in the Closing package for Borrower(s) to execute.
- DE: For loan applications registered and locked on or after 10/1/2023, prepayment penalties on NOO properties are allowed in the State of Delaware.
- IL: Cook County, < 8%, >250K Loan Amount – Max permitted 5% for 60 Months,
 - All other counties <8% – Max permitted 5% for 60 Months.
- MD: Max permitted: 2 months advance interest for 36 months; or >36-60 months, 6 months interest on 80%.
- MI: Max permitted 1% for 36 Months.
- MS: Declining PPP only, Max permitted is 5%/60,4%/48,3%/36,2%/24,1%/12.
- OH: >100K Loan Amount – Max permitted 5% for 60 Months.
- OR – Additional Notice to Borrower verbiage must be included in the Prepay Addendum in the Closing Package – Max permitted PPP 5% for 60 months.
- PA: 1-2 units w/loan amount < \$301,022 permitted when closing in an LLC, and for 3-4 Units permitted regardless of loan size. Max permitted 5% for 60 Months.
- RI: Max permitted 2% for 12 Months.
- WI – Loan Product Choice Disclosure included with the Disclosure and in the Closing package for Borrower(s) to execute – Max permitted PPP 5% for 60 months.
- All Other States – Max permitted PPP 5% for 60 months.

HIGHER PRICED MORTGAGE LOANS (HPML)

Higher Priced Mortgage Loans are permitted with certain restrictions;

- Escrow accounts are required
- A Full Interior/Exterior Appraisal is required to include a certification from the appraiser indicating that the appraisal was prepared in accordance with the requirements of title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, as amended (12 U.S.C. 3331 ET SEQ.), and any implementing regulations.
- On a purchase transaction, a second appraisal is required if:
 - If the seller acquired the property within the past 90 days and the new purchase price is more than 10% of the seller's acquisition price OR
 - If the seller acquired the property within the past 91 to 180 days and the new purchase price is more than 20% of the seller's acquisition price.
 - The cost of the second appraisal may not be passed along to the borrower
 - *Note that the timelines are measured from the date the seller became the legal owner of the property and the date the purchase agreement was signed by all parties.*

STATE AND FEDERAL HIGH COST LOANS

Federal high cost mortgages are not permitted, with the exception of certain Second Lien loans (see [Second Lien – High Cost Thresholds Section](#) for restrictions and requirements).² In addition, with the exception of loans that comply with New York Subprime regulations, any loan that meets the definition of “high cost”, “high risk”, “covered”, “subprime” or any similar designation under state or local law is not permitted.

NEW YORK SUBPRIME LOANS

- NY Subprime loans will be permitted provided ALL the following requirements are met:
 - **Disclosures requirements:**
 - *Borrower's Choice of Disclosure*
 - *Consumer Caution and Homeownership Counseling Notice*
 - *NYSDFS List of Approved Housing Counselors (no signature required)*
 - All of the above must be delivered to the borrower prior to Closing.
 - Signature on the first two (2) documents will be required or if mailed out, evidence of mailing at least three (3) days prior to Closing.
 - Signatures/evidence of delivery must be for all borrowers on the loan.
 - **Mavent:**
 - Loan must NOT fail the *High Cost (NY Part 41)* test. NQM Funding, LLC does not allow NY High-Cost Loans.
 - Loans must NOT fail the *High Cost (NY)* test. NQM Funding, LLC does not allow NY High-Cost Loans.
 - Note, these are two separate Mavent tests.
 - Higher Rate review is where the subprime designation will show up:
 - A fail is permitted for the Fixed Loan > 15 Year Term test (63900)
 - ALL other tests under the Higher-Rate Review must PASS for the loan to be eligible.
 - **Closing Documentation Requirements:**
 - Must include a legend on the top of the mortgage in 12-point/font type stating *"This mortgage is a subprime home loan subject to New York's subprime home loan laws."*
 - **Loan Program Requirements:**
 - Fixed Rate
 - No PPP
 - Escrow impounds for taxes /insurance are required.
 - Refinance loans:
 - ❖ Must have a documented sufficient NTB, AND
 - ❖ Must not be a flip of a loan originated within 6 months, AND
 - ❖ May not pay off a special mortgage guaranteed through a state, tribal or local government, or nonprofit organization, which either bears a below-market interest rate at the time of origination, or has nonstandard payment terms beneficial to the borrower, and where, as a result of refinancing, the borrower will lose 1 or more of the special benefits.
 - **Correspondent Clients:**
 - Must ensure the correct Disclosures are generated with their Disclosure Package.
Fillable PDFs of the required NY Subprime Disclosure are posted on the Portal.

WAIVING ESCROWS

Waiving escrows for taxes and insurance* is allowed on non-HPML loans and for the following product types if housing/rental history is 0x30x12:

- Select Prime O/O 660 Minimum Score; up to 80% LTV.
- CA: in addition to all of the above, Min Score 700, up to 90% LTV.
- Business Purpose, 660 Minimum Score.

Waiver of escrows is not permitted on the following:

- Flood Insurance Premiums for properties located within a FEMA flood zone that requires coverage*
- HPML Loans
- **Super Jumbo Loans**
- DSCR - No Ratio loans
- DSCR - Mixed Use (5-10 Units Residential or 2-8 Units Mixed Use)
- Foreign National loans

Note: Elective flood insurance policies for properties not located within a flood map/zone and do not require flood insurance coverage, are not required to be escrowed.

PRINCIPAL CURTAILMENT

- A curtailment may be applied to refund the overpayment of fees or charges paid by the borrower, in any amount.
- If the borrower receives more cash back than is permitted for cash out refinances, a curtailment to reduce the amount of cash back to the borrower to bring the loan in compliance may be applied however the maximum amount of the curtailment cannot exceed the lesser of \$2,500 or 2% of the original loan amount.

TRANSACTIONS

OCCUPANCY

Eligible occupancy types are Primary Residence, Second Home, Business Purpose Investment Properties.

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.

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.

INVESTMENT PROPERTY (BUSINESS PURPOSE)

An investment property (or non-owner-occupied property) is an income-producing property that the borrower does not occupy.

Effective with all retail, wholesale and NDC applications dated 2/1/2023 and later, all Investment Properties must be a Business Purpose transaction to be eligible. All Borrowers must execute a Borrower Certification of Business Purpose and Occupancy Certification.

For Retail and Wholesale channel transactions only, the Business Rider to the Mortgage/Deed of Trust must be executed at closing. This requirement does not apply to Correspondent channel transactions.

Proceeds must be used for business purposes only. All Business Purpose Transactions are non-TRID loans. If there is any indication that the transaction is not a Business Purpose Loan, the loan would be ineligible.

Acceptable Business Purpose Cash-Out Use:

- Payoff of debt secured by an investment property;
- To pay cost of improvements for an investment property;
- Refer to [Judgments and Tax Liens](#) for applicable eligibility.

Delegated Correspondents will have the option of delivering Investment Transactions as either Business Purpose Loans or according to TRID regulations.

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.

REFINANCE

Rate/term refinance, cash-out refinance, and debt consolidation transactions are allowed.

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.

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:

- NQM Funding, LLC 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
- NQM Funding, LLC must take special care to ensure a net tangible benefit to the borrower.

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 note 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.

DETERMINING LOAN TO VALUE (R/ T)

The appraised value is used to determine loan-to-value, regardless of the acquisition date. If the refinance is being completed within six months of a prior refinance, there must be a minimum of a 10% savings in payment to demonstrate sufficient benefit to the borrower.

PROPERTIES LISTED FOR SALE (R/ T)

- On an owner occupied or second home rate and term refinance, the subject property must be taken off the market on or before the application date. The borrower must also confirm in writing the reason for the prior listing and their intentions for the property.
- On investment properties *outside of DSCR No Ratio loans*:
 - The property must be taken off the market prior to close provided the new loan has a prepayment penalty.
 - If the new loan does not have a prepayment penalty, the property must be taken off the market on or before the application date.
 - If the loan is a DSCR No Ratio transaction, the property may not have been listed for sale in the last 12 months prior to the application date.
- On all occupancy types, the lesser of all recent list prices or the current appraised value will be used to determine loan to value.

CASH-OUT REFINANCE

ELIGIBILITY REQUIREMENTS

The following requirements apply to a cash out refinance:

- A cash-out refinance is a refinance that does not meet the rate/term refinance definition.
- A mortgage taken out on a property previously owned free and clear is always considered a cash-out refinance.
- A signed Borrower Certification of Business Purpose disclosing the purpose of the cash-out must be obtained on DSCR and all Investment Property transactions. The purpose of the cash-out should also be reflected on the loan application. If the loan purpose for a NOO property is anything other than Business Purpose, the loan will be ineligible for approval or purchase by NQM Funding, LLC

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 [Rate/Term Refinance](#)
- Paying off delinquent real estate taxes (60 or more days past due)
- The amount of any non-mortgage related debt paid off through closing.
- Additional cash in hand reflected on the settlement statement.

OWNERSHIP REQUIREMENTS

- At least one individual on title must have been on title to the subject property for at least six (6) months prior to the disbursement date of the new loan, unless one of the following exceptions apply:
- There is no waiting period if the borrower acquired the property through an inheritance or was legally awarded the property (divorce, separation, or dissolution of a domestic partnership).
- The delayed financing requirements are met.
- If the property was owned prior to closing by a limited liability corporation (LLC), partnership, or corporation that is majority-owned or controlled by the borrower(s), the time it was held by the LLC may be counted towards meeting the borrower's six-month ownership requirement. (In order to close the refinance transaction, ownership must be transferred out of the LLC and into the name of the individual borrower(s).
- If the property was owned prior to closing by an inter vivos revocable trust, the time held by the trust may be counted towards meeting the borrower's six-month ownership requirement if the borrower is the primary beneficiary of the trust.
- For DSCR Loans, refer to the [Continuity of Obligation](#) section within the Program guidelines.

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. The most recent mortgage transaction includes either the most recent purchase of the property or a subsequent refinance of the property. This requirement does not apply in the following situations:

- Delayed Financing
- When buying out a co-owner pursuant to a legal agreement

Note date to note date is used to calculate seasoning requirements.

DETERMINING LOAN TO VALUE (C/ O)

For cash out refinances on properties owned ≥ 6 months to < 12 months, the appraised value may be utilized to determine property value (this does not apply to Condotels, or Foreign Nationals Loans). If the new appraised value is more than 120% of the acquisition cost, the appraisal should show signs of recent improvements justifying the increase in value.

If the property was acquired ≤ 6 months, cash out is only permitted for Delayed Financing.

Condotels and Foreign Nationals require the lesser of the current appraised value or previous purchase price plus documented improvements to be used when determining LTV on properties acquired in the most recent 12 months.

PROPERTIES LISTED FOR SALE (C/ O)

- On an owner occupied or second home refinance:
 - The subject property must be taken off the market on or before the application date.

- o The borrower must also confirm in writing the reason for the prior listing and their intentions for the property.
 - o If the property was listed for sale in the six (6) months prior to the application date, a 10% LTV reduction is required.
- On investment properties *outside of DSCR No Ratio loans*:
 - o The property must be taken off the market prior to close provided the new loan has a prepayment penalty.
 - o If the new loan does not have a prepayment penalty, a cash out refinance is not permitted. The loan must be completed as a rate and term refinance.
 - o If the loan is a DSCR No Ratio transaction, the property may not have been listed for sale in the last 12 months prior to the application date.
- On all occupancy types, the lesser of all recent list prices or the current appraised value will be used to determine loan to value.

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 with the exception of instances in which the borrower has obtained a short term and/or hard money type loan which is being paid through proceeds. A copy of the note is required to verify the terms.
 - Note that in Texas on an owner occupied transaction, that delayed financing is only permitted when the property was purchased entirely in cash; the payoff of a short term and/or hard money loan is not permitted.
- Source of funds used for purchase are documented, such as bank statements, personal loan documents, or a HELOC on another property. If the source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC secured to another property), the settlement statement for the refinance transaction must reflect that all cash out proceeds be used to pay off or pay down, as applicable, the loan used to purchase the property. Note that funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new loan.
- 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.

CASH-OUT LIMITS

See program matrices for cash out limits.

DEBT CONSOLIDATION

A debt consolidation refinance transaction involves the repayment of existing liens and additional consumer debt. Consumer debt being consolidated is paid directly through the closing and referenced on the Closing Statement. Debt consolidation transactions are allowed under the Select Prime and Select Prime Express Programs only. Transactions in Texas must comply with the requirements set forth in [Texas Home Equity Loans](#).

The following requirements apply to debt consolidation transactions:

- Primary Residences occupancy with full or alternative documentation

- Traditional full doc only for second home transactions
- DTI \leq 50%
- Consumer debt must be no more than 0x60 in past 6 months.
- Minimum 3-month reserves after closing (no additional reserves required for other loan features)
- Cash to the borrower must be the lesser of \$5,000 or 2% of the new mortgage balance.
- Non-occupant co-borrowers not allowed.
- Not permitted for Investment Properties.

BENEFIT TO BORROWER

Debt consolidation transactions must result in the following benefits to the borrower:

- Total monthly debt payments are lowered by at least 10%; and
- Closing costs must be recouped within 60 months, excluding Taxes, insurance, prepaids and interest.
 - Note if not saving 10% revert to Cash Out LTV on NQM Funding, LLC Matrices

DETERMINING LOAN TO VALUE

For properties owned between (6) to (12) months, the appraised value may be utilized to determine property value with some restrictions. (This does not apply to Condotels or Foreign Nationals Loans):

- The loan amount may not exceed 100% of the acquisition cost plus documented improvements, or
- The new appraised value may not exceed 120% of the acquisition cost.

If the property was acquired \leq 6 months from application 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.

PROPERTIES LISTED FOR SALE

- On a debt consolidation loan, 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.
- If the property was listed for sale within six (6) months prior to the application date, the lesser of all the recent list prices or the current appraised value will be used to determine loan- to-value.

FLIP TRANSACTIONS

When the subject property is being resold within 180 days of its acquisition by the Seller with more than a 20% increase in value, the transaction is considered a “flip”. To determine the 180-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 including but not limited to the spouse of the Seller or Borrower being the Realtor on the transaction.

- No pattern of previous flipping activity may exist in the last twelve (12) months. Exceptions to ownership transfers may include newly constructed properties, sales by government agencies, properties inherited or acquired through divorce, and sales by the holder of a defaulted loan.
- The property was marketed openly and fairly, through a multiple listing service, auction, for sale by owner offering (documented) or developer marketing.
- No assignments of the contract to another buyer.
- If the property is being purchased for more than 5% above the appraised value, a signed letter of acknowledgement from the Borrower must be obtained.
- If the value of the property being purchased after being rehabbed appraises at more than 20% of the seller's acquisition cost and the 6-months seasoning requirement is not met, one (1) full interior/exterior appraisal and a Clear Capital Desk Review is required, unless the loan is an HPML Purchase Transaction in which case the below requirement applies.
- HPML Purchase Transactions

On a purchase transaction, a second appraisal is required if:

- If the seller acquired the property within the past 90 days and the new purchase price is more than 10% of the seller's acquisition price OR
- If the seller acquired the property within the past 91 to 180 days and the new purchase price is more than 20% of the seller's acquisition price.
- The cost of the second appraisal may not be passed along to the borrower.
- Note that the timelines are measured from the date the seller became the legal owner of the property and the date the purchase agreement was signed by all parties.
- 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/>.

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.

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 for Primary Residence, Second Home and Investment Properties:

- Relationship must be fully disclosed.
- Borrower to provide a written explanation stating relationship to the seller and reason for purchase.
 - Letter is not required when borrower is purchasing the property they have been residing in, i.e., lease purchase or tenant-purchase situations.
- Borrower to provide a copy of the canceled earnest money check paid to the property seller.
- NQM Funding, LLC 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.

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.

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 when the land contract is unrecorded. Second Homes and Investment Homes are permitted only when the Land Contract has been recorded for a minimum of 12 months prior to closing on the new transaction.
- 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
- If the Land Contract was recorded it is not considered a Non-Arm's Length Transaction.
- If they have been in the Contract for Deed agreement for more than 12 months, the borrower will not be considered a FTHB.

LEASE WITH PURCHASE OPTION

Lease with purchase option transactions is allowed for primary residences only. Borrowers may apply a portion of the rent paid to their down payment requirements. See [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
- If they have been in the lease purchase agreement for more than 12 months, the borrower will not be considered a FTHB.

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 [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).

NEW YORK CEMAS

Consolidated Extension and Modification Agreement (CEMA) may be utilized for refinance transactions secured by property located in the state of New York. NQM Funding, LLC approved Attorneys must be used to review and prepare CEMA documentation. Please see NQM Funding, LLC Approved New York Attorney list.

USE OF FOREIGN NOTARIES FOR CLOSING

Documents signed outside of the United States must be notarized by a US embassy or consular official. The certificate of acknowledgment must meet the standard notarial requirements and must include the embassy or consular seal. If the U.S. embassy or consular official is unavailable, a notary is acceptable if the country, where signing is taking place, is part of the Hague Convention and the signed documents are accompanied by an Apostille. See the following link to determine if the country is part of the Hague Convention: <https://travel.state.gov/content/travel/en/International-Parental-Child-Abduction/abductions/hague-abduction-country-list.html> Model Apostille forms can be found on the following link: <https://www.hcch.net/en/instruments/specialised-sections/apostille>

When the borrower is outside of the U.S. for Closing, and the country is located in **BOLD** on the link below, a Foreign Notary may go to the borrower to complete the signing of the closing documents.

[Approved Countries for use of Foreign Notaries](#)

TEXAS HOME EQUITY LOANS

A Texas Section 50(a)(6) mortgage is a home equity loan originated under the provisions of Article XVI, Section 50(a)(6), of the Texas Constitution, which allow a borrower to take equity out of a homestead property under certain conditions. Texas 50(a)(4), allows for a rate or term refinance of an existing Texas Home Equity loan.

All Texas Home Equity transactions must comply with the more restrictive of the NQM Funding, LLC Loan Purchase Eligibility Guidelines or Texas Home Equity Loans Requirements.

SELLER CERTIFICATION

The seller certifies that with respect to all of the Texas Section 50(a)(6) mortgages delivered to NQM Funding, LLC:

- All Texas Section 50(a)(6) mortgages were (or will be) originated pursuant to written processes and procedures that comply with the provisions of the Texas Constitution applicable to mortgage loans authorized by Section 50(a)(6), Article XVI of the Texas Constitution, as amended from time to time.
- The seller has in place a specific process for the receipt, handling, and monitoring of notices from borrowers that seller failed to comply with the provisions of the law applicable to Texas Section 50(a) (6) mortgages. Such process must be adequate to ensure that the seller will correct the failure to comply by one of the authorized means no later than the 60th day after the date the seller is notified of the failure to comply by the borrower.
- An attorney familiar with the provisions of Section 50(a)(6), Article XVI of the Texas Constitution was consulted (or will be consulted prior to origination of the Texas Section 50(a)(6) mortgages) in connection with the development and implementation of the processes and procedures used for the origination of the Texas Section 50(a)(6) mortgages.
- To ensure ongoing compliance with the law applicable to mortgage loans authorized by Section 50(a) (6), Article XVI of the Texas Constitution, the processes and procedures used for the origination of the Texas Section 50(a)(6) mortgages will be reviewed by the seller regularly and will be updated and revised, as appropriate pursuant to clarifications of the law, on a regular and continual basis.
- The seller certifies that it is lawfully authorized to make loans described by Section 50(a)(6), Article XVI, of the Texas Constitution.
- The matters certified herein are representations and warranties of the seller given to NQM Funding, LLC connection with each Texas Section 50(a)(6) mortgage.

GENERAL REQUIREMENTS

The following parameters apply to Texas Section 50(a)(6) mortgages:

- Eligible Products:
 - 40 Year Fixed Rate Term (Fully amortizing)
 - 30 Year Fixed Rate Term (Fully amortizing)
- Full Documentation, 1099, P&L Only, P&L with a minimum of two (2) months Bank Statements, Personal Bank Statement, Business Bank Statement and Asset Utilization Documentation allowed.
- Maximum LTV/CLTV 80/80%
- 1-unit properties only

LOAN PARAMETERS

The following are considered Texas Section 50(a)(6) loans:

- Loans using proceeds to pay off an existing 50(a)(6) loan (as identified in title work)
- Loans using proceeds to pay off federal tax debt liens.
- Loans using proceeds to pay property tax liens on the property securing the new loan.
- Loans using proceeds to pay off or pay down debts that are not secured by the homestead property.
- Loans with any cash back to the borrower

The following are NOT considered Texas Section 50(a)(6) loans:

- Loans using proceeds to pay current taxes due on the property securing the loan.
- Loans using proceeds to buy out equity pursuant to a court order or agreement of the parties (usually applies to a divorce settlement)
- Loan proceeds used to pay a prepayment penalty assessed on an existing non-50(a)(6) loan, and the prepayment is included in the payoff amount (new loan must have a new title policy issued without exception to the financing of the prepayment fee)
- Loans that include the payment of HOA dues if title company requires them to be paid.
- NOO loans in Texas and Business purpose loans (DSCR) Note NQM Funding, LLC will do NOO properties in Texas.

RESTRICTIONS

The following restrictions apply to Texas Home Equity loans:

- Texas Home Equity loans may not be refinanced more than once a year (>12 months)
- There can be only one outstanding 50(a)(6) loan on a property at any given time.
- If the borrower has an existing 50(a)(6) second lien and is getting cash-out from the first mortgage, that lien must be paid off
- The 50(a)(6) loan may not be used to acquire the property or to finance construction.

OCCUPANCY

Texas Home Equity loans are allowed on primary residences only. All borrowers on the loan must be in title and occupy the subject property as their primary residence.

Cash-out transactions are permitted on 2nd homes and investment properties in Texas as long as they were never previously Texas A6 loans.

BORROWERS

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

- U.S. Citizens
- Permanent Resident Aliens
- Non-Permanent Resident Aliens

The following borrowers are not allowed:

- ITINs must be underwritten to our ITIN Guidelines and Matrices
- Co-signer(s)
- Non-occupant co-borrowers
- Borrowers not on title
- Foreign Nationals
- Corporations, partnerships, or LLCs

- Trusts

NON-BORROWING SPOUSE

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

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

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

REFINANCING AN EXISTING HOME EQUITY LOAN

Effective for loans made on or after 1/1/18, existing home equity loans (as identified in title work) may be refinanced as non-home equity loans and secured with a lien against the home, provided the following conditions are met:

- the refinance occurs at least a year after the home equity loan was closed.
- the additional loan amount only covers the actual costs of the refinancing and does not provide the consumer with additional funds.
- the value of the new loan combined with the total of the outstanding principal balances of all other valid indebtedness secured by the homestead does not exceed 80% of the fair market value of the homestead on the date the extension of credit is made; and
- the lender provides the homeowner the written notice (required by and promulgated under Section (f)(2)(D) and referenced below) on a separate document no later than the third business day after the date the owner submits the loan application and at least 12 days before the closing of the refinance.

The 'Notice Concerning Refinance of a Texas Home Equity Loan Pursuant to Subsection (f)(2) of Article XVI, Section 50 of the Texas Constitution', must be provided to the owner:

For loans refinancing an existing home equity loan, the loan file must include the Texas Constitution Section 50(f-1) Affidavit Acknowledging Requirements of Subsection (f)(2), which must be properly executed under Texas law by the owner/owner's spouse.

Note: All the above requirements must be met in order for the home equity loan to be refinanced as a non- home equity loan.

12-DAY COOLING OFF PERIOD

The Notice Concerning Equity Loan Extension of Credit must be provided to the borrower in English

NOTICE CONCERNING REFINANCING A HOME EQUITY LOAN

YOUR EXISTING LOAN THAT YOU DESIRE TO REFINANCE IS A HOME EQUITY LOAN. YOU MAY HAVE THE OPTION TO REFINANCE YOUR HOME EQUITY LOAN AS EITHER A HOME EQUITY LOAN OR AS A NON-HOME EQUITY LOAN, IF OFFERED BY YOUR LENDER.

HOME EQUITY LOANS HAVE IMPORTANT CONSUMER PROTECTIONS. A LENDER MAY ONLY FORECLOSE A HOME EQUITY LOAN BASED ON A COURT ORDER. A HOME EQUITY LOAN MUST BE WITHOUT RECOURSE FOR PERSONAL LIABILITY AGAINST YOU AND YOUR SPOUSE.

IF YOU HAVE APPLIED TO REFINANCE YOUR EXISTING HOME EQUITY LOAN AS A NON-HOME EQUITY LOAN, YOU WILL LOSE CERTAIN CONSUMER PROTECTIONS. A NON-HOME EQUITY REFINANCED LOAN:

- (1) WILL PERMIT THE LENDER TO FORECLOSE WITHOUT A COURT ORDER;
- (2) WILL BE WITH RECOURSE FOR PERSONAL LIABILITY AGAINST YOU AND YOUR SPOUSE; AND
- (3) MAY ALSO CONTAIN OTHER TERMS OR CONDITIONS THAT MAY NOT BE PERMITTED IN A TRADITIONAL HOME EQUITY LOAN.

BEFORE YOU REFINANCE YOUR EXISTING HOME EQUITY LOAN TO MAKE IT A NON-HOME EQUITY LOAN, YOU SHOULD MAKE SURE YOU UNDERSTAND THAT YOU ARE WAIVING IMPORTANT PROTECTIONS THAT HOME EQUITY LOANS PROVIDE UNDER THE LAW AND SHOULD CONSIDER CONSULTING WITH AN ATTORNEY OF YOUR CHOOSING REGARDING THESE PROTECTIONS.

YOU MAY WISH TO ASK YOUR LENDER TO REFINANCE YOUR LOAN AS A HOME EQUITY LOAN. HOWEVER, A HOME EQUITY LOAN MAY HAVE A HIGHER INTEREST RATE AND CLOSING COSTS THAN A NON-HOME EQUITY LOAN.

and an additional copy of the notice translated into the written language in which the discussions were conducted. To ensure the disclosure is provided to the borrower in the correct language, the loan officer must add a comment to the Loan Submission form identifying the language spoken. The processor must properly identify the language spoken when ordering documents.

- Loan may not be closed until at least 12 calendar days after the borrower has dated and signed the initial application and Notice Concerning Equity Loan Extension of Credit.
- E consent signatures are acceptable.
- The "cooling off" period in which the borrowers, owners-in-title, and/or spouse (including non-borrowing spouse) can change his/her mind about the Texas Home Equity first mortgage runs from the later of:
 - o The date the initial loan application is signed, or
 - o The date that the Notice Concerning Equity Loan Extension of Credit is signed and dated by the borrowers, owners-in-title, and/or spouse.

PAYOFF OF DEBT

NQM Funding, LLC may require the payoff of the existing first lien as part of the loan approval when the following requirements are met:

- NQM Funding, LLC may not require any other seller-owned debt be paid off as part of the transaction as a condition of loan approval.
- If the payoff of debts to other sellers/creditors is required to qualify the borrower, then those payoffs must be shown on the settlement statement and disbursed directly to the creditor by the title company.
- Debts that are elected to be for paid off by the borrower but are not required to be paid off to qualify the borrower, may be disbursed directly to the borrower.
- Installment debts a payoff is required.
- Revolving debt use the balance on the credit report.

SECONDARY FINANCING

New subordinate financing is not allowed, but existing subordinate financing may remain in place. See [Secondary/Subordinate Financing](#).

PROPERTY CHARACTERISTICS

All properties must be residential in nature. Tax certification and exemptions for the property are to be reviewed and must meet the following requirements:

- Property must be a principal residence constituting the borrower's homestead in state of Texas.
- The homestead property may not exceed the applicable acreage limit as determined by Texas law.
- All separate structures must be included in the homestead exemption.
- The homestead parcel, as identified on the county appraisal district records, must include ingress/egress to a properly identified public road.
- The new lien may only be secured by the homestead parcel and the market value for LTV calculation can only be assessed on that parcel.

URBAN AND RURAL HOMESTEAD DEFINITIONS

TEXAS HOME EQUITY HOMESTEAD DEFINITIONS		
	URBAN HOMESTEAD DEFINITION	RURAL HOMESTEAD DEFINITION
ACREAGE	Acreage securing the loan may not exceed 10 acres.	Acreage may exceed 10 acres. However, the lot size must be typical and common with highest and best use as residential. In no case may the lot size exceed 20 acres.
PROPERTY LOCATION AND SERVICES	Property must be located: <ul style="list-style-type: none">- Within municipal boundaries, or- Its extraterritorial jurisdiction, or- A platted subdivision and be served by police protection, paid or volunteer fire protection, and at least three of the following services provided by a Municipality or under contract to a municipality:<ul style="list-style-type: none">• Electric• Natural gas• Sewer• Storm sewer• Water	The property is not located within municipal boundaries or its extraterritorial jurisdiction, or if the property is located in one of those types of areas: <ul style="list-style-type: none">- It is not served by police protection or paid, or volunteer fire protection provided by the municipality or under contract to a municipality, and- The municipality provides directly or under contract less than three (3) of the following services:<ul style="list-style-type: none">• Electric• Natural gas• Sewer• Storm sewer• Water

Properties determined to be 'Urban' cannot exceed 10 acres. Property determined to be 'Rural' may not exceed 20 acres. The property should conform to and be acceptable in the market area. The appraisal must include the actual size of the site and not a portion of the site.

CLOSING REQUIREMENTS

ATTORNEY REVIEW

All documents must be reviewed by one of the following law firms (other attorneys may be acceptable when approved in advance by NQM Funding, LLC)

- McGlinchey Stafford and Youngblood & Associates
- Polonsky Betel Green, LLP
- Brown, Fowler, Alsip
- Beadle, Newman, & Lawler
- Gregg & Valby, LLC
- Black, Mann and Graham, LLP
- Robertson Anschutz Vettters, LLC

CLOSING DISCLOSURE AND FINAL LOAN APPLICATION

The final Closing Disclosure (CD) and a copy of the final loan application must be delivered to/accepted by the borrower(s) during normal business hours. The seller is responsible for ensuring all timing requirements under Regulation Z and state law are complied with. Borrower must sign the Acknowledgment of Itemization of Fees, Points, Interest, Costs and Charges for Texas Home Equity Loan or Line of Credit to evidence their receipt of the final Closing Disclosure and loan application.

POINTS AND FEES

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

- Lender paid closing costs.
- Per diem interest
- Bona fide discount points used to reduce the interest rate.
- Escrow/impound funds.
- Appraisal fee paid to third-party appraiser.
- Surveys (completed by state registered or licensed surveyors)
- A state base premium for a mortgagee policy of title insurance with endorsements established in accordance with state law; or if a mortgagee title policy is not issued, a title examination report (if cost is less than the state base premium for a mortgagee title policy without endorsements)

If borrowers are paying discount points, the borrowers, owners-in-title and/or spouse must execute the TX Home Equity Discount Point Acknowledgment.

Only fees which are allowed by State Law and RESPA/ECOA regulatory guidelines can be charged to the borrower and MUST be accurate and reflected on the Loan Estimate (LE) and the Closing Disclosure (CD).

POWER OF ATTORNEY

Power of Attorney is not allowed.

SURVEY

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

- Confirm lot size.
- Evidence homesteads property and any adjacent land are separate.
- Evidence of homestead and property is a separately platted and subdivided lot for which full ingress and egress is available.
- Properties must be served by municipal utilities, fire, and police protection.
- Homestead must be separate parcel within permissible acreage.

A T19 endorsement is permitted in lieu of a survey when title is willing to insure over it; title survey and/or encroachment exceptions are not permitted.

TITLE

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

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

Title may not include language that:

- excludes coverage for a title defect that arises because financed origination expenses are held not to be “reasonable costs necessary to refinance”; or

- defines the “reasonable costs necessary to refinance” requirement as a “consumer credit protection” law since the standard title policy excludes coverage when lien validity is questioned due to a failure to comply with consumer credit protection laws.
- Loans must be closed in a Texas title company’s office or attorney’s office. No mobile notaries are permitted.

TEXAS HOME EQUITY DOCUMENTS

The following additional Texas Home Equity specific documents must be included in the closing package:

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

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. While only individuals may act as borrowers, a related Business Entity or Inter Vivos Revocable Trust may have an ownership interest through title to the subject property under certain circumstances as enumerated in the [Vesting and Ownership](#) section.

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. Sellers are to follow the published CIP procedures for each seller to ensure the true identity of all borrowers has been documented.

FRAUD REPORT AND BACKGROUND CHECK

All loans must include a third-party fraud detection report for all borrowers and/or guarantors. 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 the seller.

If the seller cannot electronically access the fraud report to clear high-level alerts within the fraud provider's system, an Underwriter's Certification from the seller 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 seller's underwriting staff or operations management personnel.

U.S. CITIZENS

U.S. citizens are eligible for financing.

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."

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 following programs:

- Select Prime Program (U.S. credit only)
- Select Prime Express Program (U.S. credit only)
- Investor DSCR Program (U.S. credit only). Not permitted on No Ratio cash out loans.
- Asset Utilization

VERIFICATION OF RESIDENCY STATUS

- **Acceptable Documentation to Support the Borrower's Legal Status:**
 - Borrower has a Social Security Number (SSN) and a current verified status, which may be documented by a valid employment authorization card; OR
 - A valid Visa and Social Security Number (SSN)

- Visa types allowed for all products except no ratio: A-1, A-2, A-3, A-5, C-8, C-9, E-1, E-2, E-3, EB-5, G-1 through G-5, H-1, L-1, NATO, O-1, R-1, TN NAFTA. Other Visa types permitted with valid EAD card, with the exception of EAD Category C33, which must be originated to our ITIN guidelines.
 - Visa must be current. If the visa will expire within six (6) months following the closing date, additional documentation is required: evidence that the proper extension steps have been followed per the USCIS along with proof of payment receipt and proof that the extension was done in the timeframe required by USCIS (ex. I-797 with a valid extension date along with an I-94 Form).
 - When applicable, a valid Employment Authorization Document (EAD) is required for US employment if Borrower is not sponsored by a current employer. If the visa will expire within six (6) months of loan application, it is acceptable to obtain a letter from the employer documenting the Borrower's continued employment and continued visa renewal sponsorship. The employer on the loan application must be the same as on the unexpired visa. Alternatively, evidence of prior EAD/Visa renewals may be provided.
 - 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.
- No Ratio loans only allow for the following Visa types: E-1, E-2, E-3, EB-5, G-1 through G-5, H-1B, L-1, NATO, O-1, TN (NAFTA), R-1
- Any Borrower not meeting the above criteria is not eligible.

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>.

NON-PERMANENT RESIDENT ALIEN – CREDIT REQUIREMENTS

A U.S. credit report is required for each borrower on the loan using a valid Social Security number. The credit report should provide merged credit information from the 3 major national credit repositories. A 12-month housing history is required.

QUALIFYING U.S. CREDIT

- The Qualifying U.S. Credit designation refers to a non-U.S. citizen borrower who meets Standard Tradelines in [Tradeline Requirements](#). A Qualifying U.S. Credit borrower is eligible for all products and programs available on the applicable NQM Funding, LLC Matrix. If limited tradelines than follow the NQM Funding, LLC Limited Tradeline guidelines.

QUALIFYING FOREIGN CREDIT

- The Qualifying Foreign Credit designation refers to non-U.S. citizen borrowers who do not meet the Standard Tradeline requirements. A Qualifying Foreign Credit borrower may or may not have a U.S. credit report with no credit score, a single score, or an invalid credit score (insufficient tradelines to have 3 scores). In this case, the maximum LTV is 75% for an owner-occupied property, 75% for a second home, and 70% for an investment property.
- Qualifying Foreign Credit borrowers must establish an acceptable credit history subject to the following requirements:
 - Three open accounts with a 2-year history must be documented for each borrower reflecting no late payments.
 - A 2-year housing history can be used as tradeline.
 - U.S. credit accounts can be combined with letters of reference from verifiable financial institutions in a foreign country to establish the 3 open accounts and an acceptable credit reputation or an international credit report. 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 person signing the letter; and
 - + Translations must be signed and dated by a certified translator.
- Note that when using Foreign Credit to qualify, the loan must be priced as a Foreign National Loan.

NON-PERMANENT RESIDENT ALIEN – EMPLOYMENT/ INCOME REQUIREMENTS

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

NON-PERMANENT RESIDENT ALIEN – ASSET REQUIREMENTS

All funds required for down payment, closing costs, and reserves on Non-Permanent Resident Alien transactions with a valid Social Security Number (SSN) must be seasoned for 30-days. If the borrower does not have a valid SSN (i.e., ITIN or Foreign National using foreign assets), then, 60-days of assets seasoning is required. See [Asset Documentation](#). Foreign assets deposited into a U.S. institution within 60 days of application is acceptable if there is evidence that the funds were transferred from the country from which the borrower previously or currently resides. It must also be established that the funds belonged to the borrower before the date of transfer.

Assets required for closing (down payment and closing costs) must also be seasoned in a U.S. depository institution for 10 days prior to closing or wired directly to the closing agent. (a foreign bank that is in the US IE: RBC is considered in a US Depository)

Borrowers with [Qualifying U.S. Credit](#) must have 6 months of PITIA reserves for the subject property. [Qualifying Foreign Credit](#) borrowers must have 12 months of PITIA reserves for the subject property.

Assets held in a foreign account can be used for reserves. The most recent 30-day account statement is required, and funds are to be converted to U.S. dollars using the current exchange rate. A letter of reference on company letterhead from a verifiable banking institution may also be obtained. Contact information must be provided by the person signing the letter, and the letter must state the type of relationship, length of the relationship, how accounts are held, and current balance. Any translation must be signed and dated by a certified translator.

ITIN

ITIN borrowers with LTVs up to 80% follow the below guidance as part of our standard offering.

ITIN - PROGRAM RESTRICTIONS – SELECT PRIME

- ITIN eligible with the Select Prime Full & Alt Doc only. This section applies to the Select Prime offering.
- Minimum loan size \$125,000
- Maximum DTI 50%
- Not Eligible for Express (DU).
- MS: Reduce LTVs by 5%
- Impounds required.
- Refer to [State Restrictions](#) and Counties in IL

ITIN MATRIX – SELECT PRIME

ITIN – FULL & ALT DOC MATRIX				
Maximum LTV/ CLTVs		Primary Residence		
Credit Score	Loan Amount	Purchase AND R/ T	Cash-Out	Number of Units
740	125,000 - 1,500,000	80	80	1-Unit SFR, Condo, PUD
	1,500,001 - 2,000,000	80	80	
	2,000,001 - 2,500,000	75	70	
720	125,000 - 1,500,000	80	80	
	1,500,001 - 2,000,000	80	75	
	2,000,001 - 2,500,000	60	60	
700	125,000 - 1,500,000	80	80	
	1,500,001 - 2,000,000	70	70	
660	125,000 - 1,500,000	80	75	
640	125,000 - 1,500,000	75	70	
720	125,000 - 1,500,000	80	75	2-4-Units Family Housing
	1,500,001 - 2,000,000	75	60	
700	125,000 - 1,500,000	80	70	
	1,500,001 - 2,000,000	70	60	
680	125,000 - 1,500,000	75	70	
Notes	• Non-Warrantable Projects: Max 70% LTV			
Maximum LTV/ CLTVs		Second Home		
CREDIT SCORE	Loan Amount	Purchase & R/ T	Cash-Out	Number of Units
720	125,000 - 1,500,000	75	70	1-Unit SFR, Condo, PUD
	1,500,001 - 2,000,000	75	60	
700	125,000 - 1,500,000	75	70	
	1,500,001 - 2,000,000	70	60	
660-699	125,000 - 1,500,000	70	65	
Notes	• Second Homes: 2-4 Unit Properties are Ineligible • Non-Warrantable Projects: Max 70% LTV			

Maximum LTV/ CLTVs		Investment Property (Business Purpose)		
Credit Score	Loan Amount	Purchase & R/ T	Cash-Out	Number of Units
700	125,000 – 1,500,000	75	70	1-4-Units, Condo, PUD
	1,500,001 - 2,000,000	75	70	
	2,000,0001 – 2,500,000	70	65	
680	125,000 – 1,500,000	70	65	
	1,500,001 – 2,000,000	70	65	
	2,000,0001 – 2,500,000	65	60	
660	125,000 – 1,500,000	70	65	
	1,500,001 – 2,000,000	60	N/A	
Notes	• Non-Warrantable Condos: Max 70% LTV			

ITIN – DOCUMENTATION REQUIREMENTS – SELECT PRIME

- Unexpired government photo ID
 - Examples include government license, passport, etc.
 - Note that the above satisfies the residency requirements, a VISA is not required in addition to the above for an ITIN borrower.
- ITIN card or letter from the IRS
 - ITIN is required to be assigned to the borrower prior to application (See [ITIN – Borrower Eligibility – Select Prime](#)).
 - All documentation in file must support the borrower's ITIN number and cannot reference a SSN belonging to another individual.
 - Evidence of unexpired ITIN can be accomplished as follows:
 - **Full Doc/1099 loans:** Current executed transcripts will validate the borrower's current ITIN status
 - **Alt Doc loans:** Provide one of the following:
 - IRS letter dated less than three years ago.
 - Fully executed W7, including agent' signature
 - Letter from Tax Preparer confirming they have filed the borrower's most recent tax return with the IRS.
- DACA eligible with ITIN / SSN with Valid US driver's license along with EAD card evidencing their DACA status.

ITIN – PRODUCTS / LOAN TERMS – SELECT PRIME

- 5/6 SOFR ARM 30-Yr Term
- 5/6 I/O SOFR ARM 30-Yr
- 30-Yr FRM Fully Amortizing & I/O
- 15-Year FRM Fully Amortizing
- I/O Products: ARMs and 30-Yr FRM/30-yr term only
- See the Product Matrix for ARM features

ITIN – BORROWER ELIGIBILITY – SELECT PRIME

ELIGIBLE

- ITIN must be valid and at least 2 years consistent ITIN payments reporting to the IRS is required. This can be validated with the borrower's current ITIN # along with a 2-year employment history.
- If multiple borrowers, one borrower must have ITIN.

INELIGIBLE

- Irrevocable or Blind Trusts
- Inter-Vivo Revocable Trust
- Limited partnerships, general partnerships, corporations

ITIN – CREDIT REQUIREMENTS – SELECT PRIME

- Max DTI 50%
- Housing/Rental History: 0x30x12, plus VOR/VOM
 - Borrowers who own their primary residence free and clear are considered to have an acceptable housing history.
- Refer to the [Residual Income](#) section in this guide.

ITIN – CREDIT SCORE REQUIREMENTS – SELECT PRIME

- A minimum of two credit scores is required.
- Middle of three or lower of two scores for the primary wage earner is considered the qualifying score.

ITIN – MINIMUM TRADELINES – SELECT PRIME

- Two open and active trades reporting for 24 months; or
- Three open and active trades reporting for 12 months
- Authorized user accounts and/or collections and charge-offs are not considered a valid tradeline.

ITIN – NON-TRADITIONAL CREDIT – SELECT PRIME

- A minimum of two (2) credit scores is required.
- Loan Amount is <= \$1,500,000.

The credit history must include three (3) credit references, from the list below covering the most recent 12 months' activity *Can be considered when borrowers have at least two (2) credit scores, but do not meet the standard tradeline requirements.*

- from date of application with cancelled checks.
- 12 months housing history is required to be one of the credit references

- o If a borrower's mortgage or rental history is not reported on the credit report, alternative documentation showing the most recent 12-month history (cancelled checks, mortgage/rental statements including payment history, management company VOR, etc.) must be provided.
- o Private landlord VORs may be considered on a case-by-case basis.
- o LOE or rent-free letter is required when a 12-month housing history is not applicable maximum 80% LTV with no rent history.
- o The other two tradelines may be documented from credit report or through utilities, such as electricity, gas, water, telephone service, television, and internet service providers. If utilities are included in the rental housing payment, they cannot be considered a separate source of nontraditional credit. Utilities can be considered a source of nontraditional credit only if the payment history can be separately documented.

ITIN – WAGE EARNER – SELECT PRIME

- Fully executed Written Verification of Employment
- W2 borrower's income, including but not limited to variable income, is calculated by using the previous year and YTD from the WVOE's unless the YTD income is declining. Declining income will be viewed on a case-by-case basis in an effort to determine stability of earnings.
- One (1) year signed 1040s.
- Executed 4506-C on 1040s.
- Verbal Verification (VVOE) within 10 days of the Note Date
- Not eligible for Express (DU).

ITIN – SELF EMPLOYED – SELECT PRIME

- One year signed 1040s, including all pages, schedules, statements.
- Year to date Profit and Loss Statement signed by the borrower along with most recent two months of bank statements that align with the good through date on the P&L
- K-1's on all corporations and Schedule E business entities for the prior year
- Business returns on all Corporations and Schedule E business entities prior one or two years if ownership is > 25%, including all pages, schedules, statements.
- Executed 4506-C on 1040s
- Verification of business existence within 30 days of the Note Date

ITIN – ALT DOC – SELECT PRIME

ITIN borrowers can qualify using the following alternative documentation options:

- 12- or 24- months personal or business bank statements
- 12- or 24- months CPA/Tax Prep/EA P&L and 2 months bank statements
- 1- or 2- years 1099

ITIN – RENTAL INCOME – SELECT PRIME

- Owner Occupied 2-4-Units: may add 75% of gross rent to borrower's qualifying income.
- NOO: Income used to qualify is 75% or the lesser of documented rent or market rent per appraisal.

- NOTE: for borrowers purchasing a new property and retaining their existing property, proposed rental income on the vacating primary cannot be included as effective income. The borrower must qualify with both PITIA payments.

ITIN – ASSET UTILIZATION – SELECT PRIME

Asset Utilization is permitted for ITIN borrowers up to 80% LTV using a 60-month amortization of the eligible assets to determine qualifying income stream.

ITIN – CASH-OUT REQUIREMENTS – SELECT PRIME

- LTV <= 60% = Unlimited
- LTV > 60% = Max \$750K

ITIN – ASSET DOCUMENTATION – SELECT PRIME

- Must be sourced and verified for 30-days.

ITIN – GIFT FUNDS – SELECT PRIME

Gift Funds are acceptable with the following requirements:

- Allowed with 5% minimum contribution from borrower's own funds for Owner Occupied.
- Allowed with 10% minimum contribution from borrower's own funds for 2nd Home.
- 100% of down payment and closing cost may come from a gifted funds for OO and SH to 75% LTV.
- Gift funds not permitted on NOO.
- May not be used to meet reserves.
- Gift must be from a relative
- Fannie Mae guidelines should be used for documentation, proof of funds, and evidence of receipt.
- Gift of Equity allowed for Primary Residence only and 75% maximum LTV. Must meet all other guidelines for Gift Funds.

ITIN – RESERVES – SELECT PRIME

Reserves must be sourced and verified for 30 days. Please follow the requirements listed below:

- Loans <= \$500,000 = a minimum of 3 months of PITIA reserves.
- Loan \$500,001 - \$1,500,000 = a minimum of 6 months of PITIA reserves.
- Loans > \$1,500,000 = a minimum of 12 months of PITIA reserves.
- OO/SH: Cash-out proceeds may not be used to meet reserves.
- NOO: Cash Out may be used for reserves.
- Non-vested or restricted stock accounts are not eligible for use as down payment or reserves.
- Retirement Accounts

- 60% of the vested value of retirement accounts, after reduction of any outstanding loans, may be considered toward the required reserves.
- Excluding 401k's & IRA's, verification of the terms of liquidation if funds are used for reserves.
- Retirement accounts that do not allow any type of withdrawal are ineligible for use as reserves.

ITIN - ELIGIBLE PROPERTY TYPES – SELECT PRIME

- Single Family Residences
- PUDs
- Townhouses
- Condominiums - Warrantable
- Condominium Non-Warrantable (Max 70% LTV)
- 2-4 Units

FOREIGN NATIONALS (FN)

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. To be eligible, the borrower must live and work in another country and be a legal resident of that same country. They may not purchase property intended for use as a primary residence. See the Foreign National Matrix for complete details.

FOREIGN NATIONAL PROGRAM SPECIFIC DOCUMENTATION REQUIREMENTS

- The following are required as evidence the borrower is legally present in the US:
 - Copy of the borrower's valid and unexpired passport and:
 - Copy of the borrower's unexpired visa OR an I-797 form (Notice of Action) with valid extension dates and I-94 Form (Arrival/Departure Record), or
 - Borrowers from countries participating in the State Department's Visa Waiver Program (VWP) are not required to provide a valid visa. Participating countries can be found at <https://travel.state.gov/content/travel/en/us-visas/tourism-visit/visa-waiver-program.html>.
 - Citizens of Canada traveling to the United States do not require a nonimmigrant visa.
 - Borrowers unable to provide evidence of lawful residency status in the U.S. are not eligible for financing.
- A list of nonimmigrant Visa types is located on the US Department of State website <https://travel.state.gov/content/travel/en/us-visas/visa-information-resources/all-visa-categories.html>
- If a non-US Citizen is borrowing with a US Citizen, foreign national documentation requirements still apply.
- All parties (Borrower's and Seller's) involved on the transaction must be screened through exclusionary lists and must be cleared through OFAC's SDN list. A search of Specially Designated Nationals & Blocked Persons list may be completed via US Department of Treasury: <http://sdnsearch.ofac.treas.gov/> .
- Borrowers from OFAC sanctioned countries are ineligible: <http://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx>

- Individuals with Diplomatic immunity are not eligible, immunity status is listed on the reverse side of the U.S. issued ID card or at: <https://2009-2017.state.gov/s/cpr/rls/dpl//index.htm>
- Power of Attorney (POA) is not permitted.
- Documents signed outside of the United States must be notarized by a US embassy or consular official. The certificate of acknowledgment must meet the standard notarial requirements and must include the embassy or consular seal. If the U.S. embassy or consular official is unavailable, a notary is acceptable if the country, where signing is taking place, is part of the Hague Convention and the signed documents are accompanied by an Apostille. See the following link to determine if the country is part of the Hague Convention: <https://travel.state.gov/content/travel/en/records-and-authentications/authenticate-yourdocument/apostille-requirements.htm> Model Apostille forms can be found on the following link: <https://www.hcch.net/en/instruments/specialised-sections/apostille>
- Refer to the [Use of Foreign Notaries for Closing](#) section in the guide for approved notary services when the U.S. Embassy or consular office is unavailable.

FOREIGN NATIONAL – AUTOMATIC PAYMENT AUTHORIZATION (ACH)

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

Note: In order to set-up the Automatic Payment Authorization (ACH), a copy of the borrower's cancelled check to validate the bank's routing and account number and the executed ACH form are required prior to or no later than closing.

FOREIGN NATIONAL - 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 Social Security Number, 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. A traditional U.S. credit report is not required for borrowers without a valid SSN.

Foreign National borrowers who do not have an SSN or ITIN may still proceed under the Foreign National Program. The URLA should be updated with 999-99-9999 in the SSN field. All other program requirements still apply.

QUALIFYING U.S. CREDIT (FN)

The Qualifying U.S. Credit designation refers to non-U.S. citizen borrowers who meet Standard Tradelines in [Tradeline Requirements](#).

QUALIFYING FOREIGN CREDIT (FN)

The Qualifying Foreign Credit designation refers to non-U.S. citizen borrowers who do not meet the Standard Tradeline requirements. A Qualifying Foreign Credit borrower may or may not have a U.S. credit report with no credit score, a single score, or a score with insufficient tradelines.

Qualifying Foreign Credit borrowers must establish an acceptable credit history demonstrating either 2 open tradelines reporting for 2 years with activity in the most recent 12 months displaying or three open trades with a 12+ month rating. In either example trades must experience no derogatory payments. This can be accomplished through a combination of ANY of the following:

- Tradelines evidenced on a US Credit Report; and/or
- Tradelines evidenced on an international credit report if a US credit report cannot be produced or does not reflect sufficient trades; and/or
- Alternative tradelines consisting of two of the following:
 - Credit reference letter(s) from the borrower's country of origin with the following info:
 - 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.
 - A 2-year housing history can be used as tradeline (if a primary residence is owned free and clear but taxes and insurance is paid for 12 months or more this can be used for one of the 3 trade lines.

MORTGAGE AND RENTAL PAYMENT VERIFICATION

A 12-month housing history is required for Foreign National transactions. Mortgages and rental payments combined may not exceed 0x30 in the past 12 months. Borrowers who own their primary residence as free and clear are considered to have an acceptable mortgage history. The Foreign National – CPA Letter – Free and Clear Property Form or some other evidence may be used to verify. Taxes and insurance must be included in the DTI, unless evidence is provided to support taxes and/or insurance does not exist.

FOREIGN NATIONAL - INCOME/ EMPLOYMENT REQUIREMENTS

Foreign Nationals may qualify under any of the following documentation types:

- Full Documentation
- Asset Utilization
- DSCR (Debt-Service Coverage Ratio)

FULL DOCUMENTATION

The maximum DTI allowed for Foreign National borrowers is 50%. To document income received for salaried Foreign National borrowers, the following items must be obtained:

- Letter from employer on company letterhead providing current monthly salary and YTD earnings, OR 2 months' pay stubs with YTD earnings.
- Verification of earnings for the last 2 years (letter from employer or W-2 equivalent)
- Employer to be independently verified (via LexisNexis, D&B International Business Search, Google, or other means of verification)
- All documents must be translated by a certified translator.

Foreign National borrowers who have been self-employed for at least 2 years are allowed. The following items must be obtained:

- Letter from a CPA providing income for the last 2 years and YTD earnings.
- Self-employed business and CPA are to be independently verified (via LexisNexis, D&B International Business Search, Google, or other means of verification)
- All documents must be translated by a certified translator.

Verbal Verifications of Employment are not required for Foreign National borrowers.

ASSET UTILIZATION (FN)

Foreign National borrowers may use Asset Utilization to determine qualifying income if those qualified assets sourced and seasoned for a minimum of four (4) months. The qualified assets and reserves may be deposited in financial institution(s) outside of the United States subject to State/LTV restrictions. See the Foreign National Matrix for credit score and LTV restrictions.

Asset Utilization is allowed on cash-out transactions.

Qualified Assets can be comprised of stocks, bonds, mutual funds, vested amount of retirement accounts and bank accounts. If a portion of the Qualified Assets is being used for down payment, closing costs, or reserves, those amounts must be excluded from the balance before analyzing a portfolio for income determination. four-month seasoning of all assets is required.

The following assets are considered Qualified Assets and can be utilized to calculate income:

- 100% of checking, savings, and money market accounts
- 80% of the remaining value of stocks & bonds
- 70% of retirement assets

CALCULATING QUALIFYING INCOME (FN)

To calculate qualifying income using Asset Utilization, see below:

Foreign National borrowers must have the lesser of (a) 1.5 times the loan balance or (b) \$1mm in Qualified Assets, both of which must be net of down payment, closing costs, and required reserves to qualify. See the Foreign National Matrix for max debt ratios.

The income calculation is as follows:

$$\text{Monthly Income} = \text{Net Qualified Assets} / 60 \text{ Months}$$

DEBT-SERVICE COVERAGE RATIO (FN)

A Debt-Service Coverage Ratio (DSCR) may be calculated for the subject property in lieu of documenting borrower income. Market rent must be documented with FNMA Form 1007 or Form 1025, as applicable.

The DSCR calculation is as follows:

$$\text{Debt-Service Coverage Ratio} = \text{Gross Income} / \text{Proposed [P]ITIA}^*$$

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 2 most recent, consecutive months is provided.

***For Foreign National (FN) Interest Only loans**, the DSCR calculation for the 30-Year Fixed IO Product allows for the use of the interest-only payment to qualify, including escrows.

Minimum DSCR ratio required is .75%

FOREIGN NATIONAL ASSETS

Verification of 12 months PITIA reserves for the subject property is required for transactions using Full Documentation, DSCR or Asset Utilization. Refer to matrices for State/LTV restrictions for Asset Utilization.

All funds required for down payment, closing costs, and reserves on Foreign National transactions must be seasoned for 60 days. See Asset Documentation. Assets required for closing (down payment and closing costs) must also be seasoned in a U.S. depository institution for 10 days prior to closing or wired directly to the closing agent.

Gift funds are allowed as long as the borrower has a minimum 10% of their own funds towards the down payment plus reserves for any purchase transaction with a loan amount <=\$1.0M

Foreign assets deposited into a U.S. institution within 60 days of application are acceptable if there is evidence that the funds were transferred from the country from which the borrower previously or currently resides. It must also be established that the funds belonged to the borrower before the date of transfer.

Assets held in a foreign account can be used for reserves. The most recent 30-day account statement is required, and funds are to be converted to U.S. dollars using the current exchange rate. A letter of reference on company letterhead from a verifiable banking institution may also be obtained. Contact information must be provided by the person signing the letter, and the letter must state the type of relationship, length of the relationship, how accounts are held, and current balance. Any translation must be signed and dated by a certified translator.

ADJUSTABLE RATE AND INTEREST ONLY QUALIFYING

For all ARM IO loans, the greater of the note rate or the fully indexed rate is used to determine the qualifying PITIA. The fully indexed rate is calculated by adding the margin to the index.

Non-DSCR Interest-only loans qualify using the fully amortized payment calculated over the fully amortizing period, based on the greater of the note rate or the fully indexed rate to determine qualifying PITIA. DSCR loans can be qualified using the Interest Only Payment, based on the greater of the note rate or the fully indexed rate to determine the qualifying I/O payment.

EXCLUSIONARY LIST/ OFAC/ DIPLOMATIC IMMUNITY

All parties involved on each transaction must be screened through any exclusionary list used by the seller. The seller 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: <https://sanctionssearch.ofac.treas.gov/>

Borrowers from OFAC sanctioned countries are ineligible. Access the link below for a list of sanctioned countries: <http://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx>

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 <http://www.state.gov/s/cpr/rls/>.

Refer to the [State Restrictions](#) section of the guide for State excluded countries.

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. A related Business Entity or Inter Vivos Revocable Trust may have an ownership interest in 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.)

NON-OCCUPANT CO-BORROWERS

Non-occupant co-borrowers are allowed under the **Select Prime** and Select Prime Express Programs when the following requirements are 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 a relative
- Max 90% LTV
- Max 43% DTI (total DTI)
- Max 65% DTI (DTI for occupying borrower only)
- **When using Express (DU) ONLY: Ratios for the Occupying Borrower and Non-Occupant Co-Borrower may be blended.**
- Max loan amount \$1,000,000
- Still use the primary wage earners score, whether it be the occupant or the non-occupying coborrower

FIRST-TIME HOME BUYERS

A First-Time Home Buyer is defined as a borrower who had no ownership interest in a residential property in the United States during the preceding 5-year period.

The following requirements apply to First-Time Home Buyer transactions:

- Primary residence and second homes; and investment properties.
- Minimum 640 score
- Permitted on Select Prime or Select Prime Express for loan amounts up to \$1,500,000.
- The First-Time Home Buyers requirements do not apply to DSCR loans.

If a spouse is on the deed of a principal residence in the last 36 months, they are not a first-time home buyer.

If either borrower has had ownership interest, as defined above, the loan is not subject to the First Time Homebuyer restrictions.

EMPLOYEES OF CLIENT

Loans to employees of the Client 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 Seller are permitted on an exception basis only.

LIMITED POWER OF ATTORNEY

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

- Signed and Notarized 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.
- POA not permitted on cash out, Foreign National, or when title is vested in a trust or an entity.

VESTING AND OWNERSHIP

FEE SIMPLE OWNERSHIP

Acceptable forms of vesting with Fee Simple ownership are:

- Individuals
- Joint Tenants
- Tenants in Common
- [Inter Vivos Revocable Trust](#)
- [Business Entity \(NOO ONLY\)](#)
 - Limited Liability Company (LLC)
 - Limited and General Partnerships
 - Corporations
 - S Corporations

Note: Only individuals can act as borrowers. The other entities listed above relate only to an ownership interest in the subject property.

Ineligible forms of vesting are:

- Land Trusts
- Blind Trusts
- Life Estates

INTER VIVOS REVOCABLE TRUST

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. A Power of Attorney is not permitted on loans when title is vested in a trust.

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.

In the state of California Title may provide a trust cert.

BUSINESS ENTITY

Ownership or title vesting in the name of an LLC, partnership, or corporation (collectively 'Entity') is acceptable on investment property transactions only. While only individual owners of the Entity must qualify as the borrowers, ownership of the subject property may vest in an Entity.

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

- Investment properties only

- Entity limited to a maximum of 4 owners (aka members, partners, or shareholders)
- Personal Guarantees are required from the authorized signor(s) who are borrowers on the loan along with any individual with 50% or greater ownership in the entity.
- The loan application, credit report, income, and assets for the authorized signer will be used to determine qualification and pricing.
 - If the operating agreement does not state an authorized signer, then all entity owners must apply as a borrower and complete a 1003 as an individual applicant.
- Entity must be domiciled in a US State
- Each Entity owner must receive notice of the loan and its terms prior to closing.
- LLCs owned by LLCs will be reviewed on a case by case basis. Layering of entities is not permitted on DSCR No Ratio Loans.

The following Entity documentation must be provided prior to closing:

- **Limited Liability Company (LLC)**
 - Entity Articles of Organization, Partnership, and Operating Agreements (if applicable)
 - Corporate documents that contain a list of owners along with titles
 - Tax Identification Number (EIN)
 - Certificate of Good Standing or Equivalent
 - Foreign LLC Certificate of Good Standing or equivalent if entity not formed in subject property state. For newly filed LLCs, evidence of submission of registration with all required fees being paid will be accepted.
 - Certificate of Authorization for the person executing all documents on behalf of the Entity
 - Borrowing Certificate (LLC Borrowing Certificate – Single Member or LLC Borrowing Certificate – Multiple Member). Examples of these forms can be found on the portal in the Documents section.
- **Corporation**
 - Filed Certificate/Articles of Incorporation (and all amendments)
 - By-Laws (and all amendments)
 - Certificate of Good Standing issued by the Secretary of State where the corporation is incorporated
 - Tax Identification Number (EIN)
 - Borrower Resolution/Corporate Resolution granting authority of signer to enter into a loan obligation
 - Receipt of current year franchise tax payment or clear search
- **Partnership**
 - Filed Partnership Certificate (if a general partnership, filing with the SOS may be required)
 - Partnership Agreement and all amendments
 - Certificate of Good Standing issued by the Secretary of State where the partnership is registered
 - Tax Identification Number (EIN)
 - Limited partner consents (where required by partnership agreement)

Documents must be completed and signed as follows:

- Loan Application (1003)
 - Completed and signed by the authorized signer or each individual owner.

- 1003 section labeled “Title will be held in what Name(s)” should be completed with only the Entity name.
- **Personal Guaranty**
 - Is not required, WHEN ALL members of the entity sign the note personally AND for the entity and sign the mortgage as a member of the entity.
 - If the above is not true, then:
 - Personal Guaranty is required and must be executed by all borrowers, as well as any individual with a 50% or greater ownership in the entity.
 - The guaranty for any non-borrower with a 50% or greater ownership in the entity may be executed prior to closing, however any terms referenced on the guaranty must reference the final terms on the loan.
 - Spousal Consent to Pledge on loan amounts \$1,000,000 and up
 - Spousal Consent to Pledge in community property states (AK, AZ, ID, LA, NM, TX, WA, WI).
 - Each individual who is providing a personal guaranty; the authorized signer is required to sign.
 - The guaranty should be executed at loan closing and dated the same day as the Note.
 - Spousal Consent to Pledge on loan amounts \$1,000,000 and up.
 - Spousal Consent to Pledge in community property states (AK, AZ, ID, LA, NM, TX, WA, WI).
- **Borrowing Certificate**
 - Signed by all entity members providing acknowledgement to terms of the financing
- **Disclosures** (GFE, TIL, Notice of Intent to Proceed, Servicing Disclosure, etc.) - completed and signed by each individual borrower.
- **CD or HUD 1** - completed and signed by the authorized signer.
- **Other Closing Documents** (Final TIL, Business Purpose and Occupancy Affidavit, etc.) - completed by the Authorized signer or individual owners(s) of the Entity.
- **Note**- 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 when accompanied by a Personal Guaranty OR by all members of the Entity both individually and as members when a Personal Guaranty is not executed.
- **Deed of Trust/Mortgage, and all attached Riders** - must be completed as a member 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

Entity Signature Requirement Examples:

- [Authorized Signatory] may be replaced by a different title as specified in the Member Consent (e.g., Managing member, Member, etc.).
- **Example 1:**
 - Borrower: SS Properties, LLC by Steve Smith, Single Member of LLC
 - Signature Block of Note, Security Instrument, and all Riders:
 - SS Properties, LLC a [_____] limited liability company
Steve Smith
 By: Steve Smith
 Title: [_____]

- Example 2:
 - o Borrower: SS Properties, LLC by Steve Smith and Mary Smith, two Members of LLC; both Members are Authorized Signatories of LLC.
 - o Signature Block of Note, Security Instrument, and all Riders:
 - SS Properties, LLC a [_____] limited liability company
Steve Smith
 By: Steve Smith
 Title: [_____]
- And
- SS Properties, LLC a [_____] limited liability company
Mary Smith
 By: Mary Smith
 Title: [_____]

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 [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.

LEASE REQUIREMENTS

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

- The term of the leasehold estate must run for at least five years beyond the maturity date of the mortgage unless fee simple title will vest at an earlier date in the borrower's name.
- 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 the 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
 - o the right to receive a minimum of 30 days' notice of any default by the borrower, and
 - o the option to either cure the default or take over the borrower's rights under the lease.

ADDITIONAL ELIGIBILITY REQUIREMENTS

The following requirements must be met before a lender can deliver a leasehold estate mortgage for purchase or securitization:

- 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.

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.

ESTABLISHING LAND PURCHASE PRICE	
STATUS OF PROPERTY IMPROVEMENTS	PURCHASE PRICE OF LAND
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).	<p>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.</p> <p>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.</p> <p>Leases may be offered with or without a limitation on increases or decreases in the rent payments.</p>

<p>Will be constructed after the lease is executed</p>	<p>The purchase price of the land should be the lower of the following:</p> <ul style="list-style-type: none"> • 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. <p>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).</p> <p><u>Note:</u> 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.</p>
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MULTIPLE FINANCED PROPERTIES AND NQMF EXPOSURE

There is no limit on the number of other properties borrowers may currently have financed with the exception of No Ratio loans. No Ratio loans are limited to 20 financed residential properties.

NQM Funding, LLC 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 to a maximum of 15 million. The maximum exposure to a single borrower on the No Ratio program is \$7.5m in unpaid principal balance or ten properties.

INELIGIBLE BORROWERS

The following borrowers are not eligible:

- LLCs, partnerships, or corporations (may qualify for vesting only)
- 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
- Refer to matrices for vesting restrictions on loans with Prepayment Penalties.
- Refer to the [State Restrictions](#) section in this Guide and Matrices.

CREDIT ANALYSIS

EQUAL CREDIT OPPORTUNITY ACT, FAIR HOUSING ACT & STATE FAIR LENDING LAWS

The Federal Equal Credit Opportunity Act prohibits lenders from discriminating against credit borrowers on the basis of race, color, religion, national or ethnic origin, sex, marital or familial status, age (provided the borrower has the capacity to enter into a binding contract), disability, because all or part of the borrower's income is derived from a public assistance program or because the borrower has, in good faith, exercised any rights under the Consumer Credit Protection Act. State laws may also prohibit discrimination on certain additional basis such as sexual orientation.

Similarly, the Fair Housing Act prohibits lenders from discriminating against mortgage borrowers on the basis of race, color, religion, sex, familial status, national origin, or disability.

NQM Funding, LLC expects lenders originating loans for sale to NQM Funding, LLC to adhere to the letter and spirit of federal and state fair lending laws.

CREDIT REPORT

A credit report is required for all borrowers on a loan.

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 on the loan.

See [Credit Requirements](#) for acceptability of ITINs for Foreign National borrowers only.

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.

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 Note Date.

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 closing. The actions must be reasonable and compliant with applicable laws. A final underwriting decision cannot be made without full resolution of the alert.

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 will be obtained to reflect current and updated information from all repositories.

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.

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.

CREDIT RESCORE

Credit Rescoring:

- NQM Funding, LLC, will allow credit rescoring on Business Purpose loans only. Credit rescoring for all other loan transactions involving owner occupied and second home occupancies are not permitted for the purpose of increasing the score to qualify, except to correct a reporting error as indicated in the permissible scenarios listed below.
- NQM Funding, LLC, will not purchase a loan that does not meet the requirements listed above and/or below.

Permissible scenarios for owner occupied and second home transactions in which an updated credit report would be permitted (These rare instances must be acceptable at the sole discretion of the Underwriter based on the documentation provided):

- Borrower disputed erroneously reported account activity:
 - Mortgage, Installment, or Revolving account with current balance does not belong to the borrower(s)
 - Delinquent account does not belong to the borrower(s)
 - Borrower's account was paid-off prior to making loan application; however, credit report shows a current balance and payment.
 - The creditor must acknowledge responsibility for the reporting error in writing (no exceptions); the reporting agency must correct the error; and borrower must provide evidence of the investigation and corrective action.
 - All credit reports pulled during the loan process must be in the loan file.
- The credit report date has expired per Age of Documentation Policy.

GAP CREDIT REPORT

A credit refresh or undisclosed debt monitoring report dated within 10 days of closing is required. Business purpose DSCR loans are excluded from this requirement.

CREDIT SCORE REQUIREMENTS

The primary income-earner's score is used as the Representative Credit Score for each loan. The primary income-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 540 or greater. It is permissible that a non-occupying coborrower be the primary wage earner.

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.

TRADELINE REQUIREMENTS

MINIMUM TRADELINES If the primary borrower has three credit scores, the minimum tradeline requirement is waived. See DSCR Section for No-Ratio-Tradeline requirements .			
	OCCUPANCY	TRADELINE HISTORY	MINIMUM STANDARDS
STANDARD TRADELINE	Primary, Second Homes and Investment	3 tradelines reporting for 12+ months with activity in last 12 months (they may be closed) or 2 tradelines reporting for 24+ months with activity in last 12 months (it may be closed) Or 24-month mortgage history reporting on credit report with a score	Ox30 for most recent 12 months
ALTERNATE TRADELINE	Primary, Second Homes and Investment	Minimum of two credit scores PLUS: • 8+ tradelines, 1 of which must be a mortgage or rental history, • At least 1 tradeline open and reporting 12+ months • 8+ year established credit history	Tradelines cannot have serious adverse history Student loans can only be counted if they are in repayment and not deferred
*LIMITED TRADELINE	Primary and Second Homes	Does not meet minimum tradeline requirements	N/A

**Note married couples may combine tradelines.*

**Only the primary wage earner must meet the tradeline requirement when co borrowers are not married.*

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 Ox60 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.

STANDARD TRADELINES

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

LIMITED TRADELINES

The following requirements apply when qualifying with Limited Tradelines:

- Primary residence only
- 640 minimum Score
- Maximum DTI of 43%
- 10% minimum borrower contribution
- Max LTV 80%
- Must have a rental history with canceled checks or Management Company VOR

When qualifying with Limited Tradelines, the lower of either the Representative Loan Score or a 640 score is used to qualify the borrower on the NQM Funding, LLC Select Prime Matrix. The loan may be priced using the actual Representative Loan Score.

INSUFFICIENT TRADELINES/ NON-TRADITIONAL CREDIT

Non-traditional credit is not allowed. Each borrower must have a valid and usable score as defined in [Credit Score Requirements](#).

If the borrower does not meet the requirements for Standard Tradelines but still has a valid credit score, he or she may qualify under Limited Tradelines.

MORTGAGE AND RENTAL PAYMENT VERIFICATION

Mortgage and rental payments 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, 12 months of cancelled checks or bank statements must be obtained. A VOR/VOM is not required but may be requested for clarification.

All mortgages and rental payments should be current at time of closing. If the credit report or VOR/VOM reflects a past-due status, updated documentation is required to verify account is current.

SELECT PRIME

All mortgages and rental payments are permitted to a maximum of 90 days over the past 12 months. See matrix for applicable LTV reductions.

SELECT PRIME EXPRESS

All mortgages and rental payments must be paid as agreed for the last 12 months.

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
- 10% minimum borrower contribution
- Payment Shock is not considered.
- Maximum of 80% LTV
- VOR/VOM must be obtained for all month's available reflecting paid as agreed. Cancelled Checks required if private VOR or VOM unless otherwise noted in guides.

Properties owned free and clear are considered 0x30 for grading purposes.

Borrowers who are living rent free must provide a rent-free letter from the property owner.

Borrowers are not considered to have "no housing history" under the following circumstances and standard program guidelines can be followed:

- Borrower(s) who own their primary residence free and clear.
- Borrowers living in the marital home.
- Borrower(s) who sold a primary residence within the past 12-months and are currently residing rent free until subject transaction closes.

*Note: On Select Prime Express, a 12-month housing/rental reference is required per the applicable matrix, however DU documentation requirements may be followed.

MODIFICATIONS AND COVID RELATED FORBEARANCE

A mortgage modification resulting in any of the attributes listed below is subject to Housing Event seasoning guidelines under [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.

For COVID Related Forbearance and for Modifications as a direct result of COVID, follow below:

- Borrowers who entered into a forbearance plan but continued to make timely payments and remained employed without income disruption are eligible without any restrictions.
- Borrowers who entered a forbearance plan with missed payments, are eligible with the following restrictions:
 - o For Select Prime, if a minimum of three (3) timely payments have been made since the forbearance period expired, the borrower exited forbearance and there has been no modification to the loan and/or a deficiency balance placed on the loan, they are eligible without restrictions. If a deficiency balance has been applied to the loan, the borrower must be out of forbearance and have a minimum of six (6) timely payments prior to the close of the new transaction.

- o For DSCR transactions, if the COVID related forbearance is on the subject property OR the primary residence, the borrower must be out of forbearance with a minimum of three (3) timely payments made with no deficiency balance applied to the loan; OR if a deficiency balance has been applied to the loan, the borrower must be out of forbearance and have a minimum of six (6) timely payments prior to the close of the new transaction. COVID related forbearances on non-subject or non-primary residences are not evaluated in the DSCR program.

ROLLING LATE PAYMENTS

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

HOUSING EVENTS AND PRIOR BANKRUPTCY

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 COURT ORDER TO THE NOTE DATE OF THE NEW TRANSACTION. 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 [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.

SELECT PRIME & SELECT PRIME EXPRESS

Please refer to Program Matrices. Housing events must be completed as follows prior to Note Date:

Housing History and Housing Event Seasoning Restrictions <i>Ch.13: use filing date if discharged; use dismissal date if dismissed</i>				
Housing History	1x30x12	2 x 30 x 12	0x60x12	0x90x12 O/O Only
BK/ FC/ SS/ DIL/ Mod:	>=48 Mo	>= 36 Mo	>= 24 Mo	>= 12 Mo

WRITTEN EXPLANATIONS FOR DEROGATORY CREDIT

Housing Events and bankruptcies in the most recent 2 years must be explained by the borrower with a signed letter of explanation. Housing lates > 60 days in the last 12 months are not acceptable. Explanation letters for medical collections, revolving lates or collections are not required.

For No Ratio loans, all derogatory revolving and installment accounts 60 days delinquent within four years of closing require a full explanation.

COLLECTIONS AND CHARGE-OFFS

Delinquent credit, such as charge-offs of non-mortgage accounts are to be considered as follows.

The following accounts may remain open for all programs except No Ratio:

- Collections and charge-offs < 24 months old with a maximum cumulative balance of \$5,000
- 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 limitation for that state (supporting documentation required)
- All medical collections
- Collections from factoring companies when the original debt can be verified on the credit report

Under all programs with the exception of No Ratio, 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.

For the No Ratio Program, non-title charge-offs and collections within three years and exceeding \$5,000 (individually or aggregate) must be paid. Medical collections less than \$15,000 are not required to be paid.

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 [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.

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 [Contingent Liabilities](#).

DISPUTED ACCOUNTS

When the credit report contains tradelines disputed by the borrower:

- If the tradeline is paid as agreed, no further action is needed.
- If the disputed account has a zero balance or is being paid at closing, no further action is needed.
- If the disputed account has delinquency within two years of the credit report date and the account balance is \$2,500 or less, no further action is needed.
- If the disputed account has delinquency within two years of the credit report date and the account balance is over \$2,500, the credit file should be documented with a credit supplement showing the dispute has been resolved.
- If the total aggregate balance of accounts in dispute exceeds \$5,000, a minimum of 5% of the total balance must be included in the DTI.

JUDGMENTS AND TAX LIENS

Judgments and tax liens must be paid off prior to or at closing unless the requirements listed below are met.

Adverse credit that will impact title must be paid in full as title must insure our lien position without exception.

Court-ordered judgments and tax liens may remain open when all of the following requirements are met on refinances (scroll below for No Ratio requirements):

- A copy of the repayment agreement is obtained.
- 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 judgments and tax liens may remain open on purchase transactions only (additional LTV reductions may be required based on the size of the lien). All of the following requirements must be met (scroll below for No Ratio requirements):

- A copy of the repayment agreement is obtained.
- A minimum of 2 months has elapsed on the plan and evidence of timely payments for the most recent 2 months is provided.
- 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.

IRS tax payment plans approved by the IRS are permitted on No Ratio loans provided they are current and do not carry a lien on the property.

- A copy of the approved repayment plan is required
- A minimum of 2 months has elapsed on the plan and evidence of timely payments for the most recent 2 months is provided.

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.

PAST DUE ACCOUNTS

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

LIABILITIES

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 or at 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 if paid prior to closing. If a vehicle lease is paid off to qualify evidence the car was purchased is required. (The lease payments themselves is not considered paying off the debt). Installment debt may also be paid down to qualify.

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. A credit supplement can be obtained to verify what the minimum payment is if it is not reflected on the credit report.

Revolving accounts can be paid off prior to or at closing in order to exclude the payment from the debt ratio. Supporting documentation, such as a credit supplement or direct verification from the creditor, must be obtained as evidence the debt has been paid in full. See [Asset Documentation](#) for sourcing and seasoning requirements. If revolving debt is paid off to qualify the account does not have to be closed.

AUTHORIZED USER ACCOUNTS

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

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 6 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.

If the debt is less than 3 months old, the payment must be included in the debt-to-income ratio. Unless it is a vehicle and evidence the previous vehicle was paid by the business.

CHILD SUPPORT, ALIMONY OR MAINTENANCE OBLIGATIONS

When the borrower is required to pay alimony, child support, or separate maintenance payments under a divorce decree, separation agreement, or any other written legal agreement—and those payments must continue to be made for more than ten months—the payments must be considered as part of the borrower's recurring monthly debt obligations. However, voluntary payments do not need to be taken into consideration and an exception is allowed for alimony. A copy of the divorce decree, separation agreement, court order, or equivalent documentation confirming the amount of the obligation must be obtained and retained in the loan file.

For alimony and separate maintenance obligations, the lender has the option to reduce the qualifying income by the amount of the obligation in lieu of including it as a monthly payment in the calculation of the DTI ratio.

Note: For loan casefiles underwritten through DU, when using the option of reducing the borrower's monthly qualifying income by the alimony or separate maintenance payment, the lender must enter the amount of the monthly obligation as a negative alimony or separate maintenance income amount. (If the borrower also receives alimony or separate maintenance income, the amounts should be combined and entered as a net amount.)

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 (i.e., 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.

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 bank statements) must be obtained from the other party making the payments that document a 12-month payment history with no delinquent payments. When a borrower is obligated on a mortgage debt, regardless of whether or not the other party is making the monthly mortgage payments, the referenced property must be included in the count of financed properties.

HOUSING PAYMENTS

The monthly mortgage payment (PITIA) used for qualification consists of the following:

- Principal and Interest
- Hazard and flood and insurance premiums
- Real Estate Taxes
- Special Assessments
- Association Dues, including Mandatory Membership Dues
- Any subordinate financing payments on mortgages secured by the subject property.

LEASE OBLIGATIONS

Car Lease obligations must be included in the debt-to-income ratio calculation, regardless of time remaining on the lease.

MATERIAL RECURRING NON-DEBT OBLIGATIONS

Sellers are not permitted to make inquiries or verifications prohibited by Regulation B.

A recurring non-debt obligation is defined as medical expenses for the borrower or a dependent of the borrower that are expected to continue for greater than one year.

If the borrower informs the seller of a recurring non-debt obligation, the loan file must be noted. If the seller believes it could be material to the borrower's ability to repay the loan, escalation is required.

Documentation of material recurring non-debt obligations should be done consistent with seller's ability to repay policies and in a form acceptable to NQM Funding, LLC

OPEN 30-DAY CHARGE ACCOUNTS

For open 30-day charge accounts that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, 5% of the outstanding balance will be considered to be the required monthly payment.

Open-end accounts do not have to be included in the monthly debt payment if the borrower has sufficient funds to pay off the outstanding account balance. The funds must be verified in addition to any funds required for closing and reserves.

If the borrower paid off the account balance prior to closing or at closing, proof of payoff may be provided in lieu of verifying funds to cover the account balance.

RETIREMENT/ SAVINGS PLAN LOANS

Repayment for loans against a financial asset (retirement/savings plan, insurance policy) can be excluded from the total debt-to-income ratio provided the debt can be repaid by liquidating the asset. Value of the asset must be reduced by the amount of the debt when calculating funds to close and reserves.

STUDENT LOANS

If a monthly student loan payment is provided on the credit report, that amount may be used for qualifying purposes. If the credit report does not reflect the correct monthly payment, the monthly payment that is on the student loan documentation (the most recent student loan statement) may be used to qualify the borrower.

If the credit report does not provide a monthly payment for the student loan, or if the credit report shows \$0 as the monthly payment, then the qualifying monthly payment must be determined using one of the options below:

- If the borrower is on an income-driven payment plan, student loan documentation may be obtained to verify the actual monthly payment is \$0. The borrower may then qualify with a \$0 payment.

- For deferred loans or loans in forbearance, the following must be calculated:
 - o a payment equal to 1% of the outstanding student loan balance (even if this amount is lower than the actual fully amortizing payment); or
 - o fully amortizing payment using the documented loan repayment terms.

TIMESHARES

For credit review purposes, timeshare obligations will be considered installment loans.

UNDISCLOSED DEBTS

If asset statements provided reflect payments made on obligations not listed on the credit report or 1003, additional information must be obtained to determine if the liability should be included in the borrower's debt- to-income ratio.

If the obligation does not belong to the borrower, supporting documentation is required. If there is a non- borrower also on the account, a signed letter of explanation from the borrower is sufficient.

If the borrower is the obligor on the debt, an account statement and pay history should be obtained to review the account for acceptability. The payment must be included in the debt ratio.

EMPLOYMENT/INCOME

EMPLOYMENT/ INCOME DOCUMENTATION

Documentation of income is allowed using [Full Documentation](#), [Bank Statement Documentation](#), and [1-Year Alternative Income Documentation](#).

IRS 4506-C TAX TRANSCRIPTS

IRS Form 4506-C must be completed and signed by all borrowers both at application and closing. The form must request the appropriate documentation type (W-2s, full tax transcripts, etc.) and be executed prior to closing. 4506-C forms and transcripts are not required for business tax returns or loans utilizing Bank Statement Documentation for income. In addition, for wage earners whose income is documented through a FNMA DU Validation Electronic Verification of Employment vendor (i.e., Blend, Equifax, Experian, Finicity, Truework), which includes income transcripts are not required.

Documentation received from executing the 4506-C must be reviewed and compared to the qualifying income to confirm consistency. Results from processing the 4506-C should generally be equal to or greater than the income used to qualify the loan. Any inconsistencies between the 4506-C results and qualifying income should be addressed.

When the most recent year's tax transcript is not available, in order to use the income for qualifying the following is required:

- Copy of the e-filing confirmation
- Proof the check cleared for any taxes that were paid to the IRS
- Tax Transcript confirming "No Record Found"

PAY STUBS AND W-2S

Pay stubs and W-2s must be typed or computer generated. They should provide the borrower's full name, address, employer name, year-to-date earnings, and rate of pay.

If pay stubs reflects garnishments (child support, IRS, etc.) or any loan deductions, additional information will be required to determine if a monthly payment should be included in the debt-to-income ratio calculation.

W-2s should reflect a nine-digit Employer ID Number (EIN). Also, Social Security and Medicare withholding should be calculated at the appropriate rates on the W-2s and pay stubs.

FEDERAL INCOME TAX RETURNS

For some types of income, federal income tax returns (personal and/or business) are required. See [Self-Employed Income](#) for detailed requirements.

WRITTEN VERIFICATION OF EMPLOYMENT (WVOE)

Income and employment for wage-earners or salaried borrowers may be obtained via direct written verification from the borrower's employer (FNMA Form 1005). The verification should be signed by a member of the company's human resource department or one of the business owners or officers. At a minimum, the verification must include the borrower's name, position, dates of employment, and base salary.

VERBAL VERIFICATION OF EMPLOYMENT (VVOE)

Verbal Verifications of Employment must be obtained for each borrower using employment income to qualify. VVOEs must meet all of the following criteria:

- Completed within 10 business days of closing
- Confirm that the borrower is employed at time of verification
- Include the name and phone number of the person processing the VVOE
- Include the name, position and phone number of the person providing the verification (employer)
- Telephone number for the borrower's employer must be verified independently via any of the following: telephone book, the internet, directory assistance, or by contacting the applicable licensing bureau

When VVOEs are completed through a third-party vendor, because their databases are typically updated monthly, the verification must evidence that the information in the vendor's database was no more than 35 days old as of the note date.

For self-employed borrowers, the existence of the business must be independently verified through a disinterested third party within 30 business days of closing. The loan file should reflect the documentation secured from these sources. Sources may include:

- CPA, regulatory agency, or applicable licensing bureau
- Secretary of State listing reflecting current year registration
- Verification of a phone and address listing using the Internet.

Verbal Verifications of Employment are not required for Foreign National borrowers or on DSCR loans.

CPA/ TAX PREPARER'S VERIFICATION

Tax Preparers must have a PTIN Number when available. If the state does not require a PTIN Number, it must be from a verifiable 3rd party tax preparer (verified by a business through the internet or state website) This requirement is for all sections of this guide that a Tax Preparer may be utilized.

CPA license verification must be completed through an online search such as <https://cpaverify.org/> . If unable to verify online, sufficient documentation must be provided to validate the license.

EMPLOYMENT HISTORY

Employment must be stable with at least a 2-year history in the same job or jobs in the same field. Income from self-employment is considered stable if the borrower has been self-employed for 2 or more years.

FREQUENT JOB CHANGES

Frequent job changes to advance within the same line of work may be considered favorable. Job changes without advancement or in different fields of work should be carefully reviewed to ensure consistent or increasing income levels and the likelihood of continued stable employment.

GAPS IN EMPLOYMENT

Borrowers should provide a signed, written explanation for any employment gaps that exceed 30 days in the most recent 12-month period, or that exceed 60 days in months 13-24. Recent graduates and borrowers re-entering the workforce after an extended period are allowed assuming they have been back to work for 6 months.

Note: Illness and childbirth are not considered for gaps in employment

FULL DOCUMENTATION

For all income sources, borrowers are qualified based on calculated stable monthly income over the most recent 2-year period. Income may be obtained from a variety of sources such as salary, bonus, commission, self-employment, etc., and should be reasonably expected to continue for the next 3 years.

WAGE- EARNERS

Income derived from a consistent hourly, weekly or monthly wage, must be verified by all of the following:

- W-2s for the most recent 2 years (1099s also acceptable: see [1099 Income](#)); and
- Pay stub(s) providing year-to-date earnings; and
- Signed and executed 4506-C (W-2 transcripts only); and
- Verbal Verification of Employment (VVOE) completed within 10 days of closing.

ANNUITY INCOME

Annuity income can be used for qualification when the following requirements are met:

- 12-month history must be verified using 1099s, tax returns, and/or bank statements
- Letter from issuer of annuity to be obtained stating that it has been set up on periodic withdrawal, amount of withdrawal, duration, and balance.
- Account asset balance must support the continuance of the monthly payments for at least 3 years after the close of escrow.

Annuities less than 12 months old must be in a non-revocable trust with a minimum term of 40 months in order to use the income to qualify.

For annuity distributions from a 401(k) or pension, see [Pension/Retirement](#).

AUTOMOBILE ALLOWANCE

For an automobile allowance to be considered as acceptable stable income, the borrower must have received payments for at least 2 years. The full amount of the allowance must be added to the borrower's monthly income, and the full amount of the lease or financing expenditure to the borrower's monthly debt obligations.

BONUS AND OVERTIME

Bonus and overtime can be used to qualify if the borrower has received the income for the past 2 years and it is likely to continue. An average of bonus or overtime income should be used.

A written Verification of Employment (FNMA Form 1005) should be obtained to provide a breakdown of bonus or overtime earnings for the most recent 2 years. If the employment verification states the income is unlikely to continue, it may not be used in qualifying.

CAPITAL GAINS

When income from capital gains is used to qualify the borrower, tax returns for the most recent 2 years are required to determine if the income is recurring and may be considered in qualifying. If a capital gain appears to be a onetime occurrence, it should not be considered when calculating income available.

For the income to be considered stable and likely to continue, sufficient assets must be documented to show the borrower will continue receiving the capital gains for a minimum of 3 years from note date. If the income is declining and/or there will be no asset base to generate the capital gains, it cannot be used for qualification purposes.

In addition, if assets that generated capital gains are being sold as part of the mortgage transaction, the income from capital gains must be reduced by a percentage equal to the percentage reduction in the value of the assets that generated the income.

CHILD SUPPORT, ALIMONY OR MAINTENANCE INCOME

In order for child support, alimony, or separate maintenance to be considered stable income, it must continue for at least 3 years from note date as specified by the court order. The following requirements apply:

- A copy of the divorce decree or legal separation agreement must be obtained.
- Documentation must be received to evidence receipt of the most recent 6 months of payments through copies of deposit slips, canceled checks, and/or bank statements.

Full and timely payments must have been received for 6 months or longer. Income received for less than 6 months is considered unstable and may not be used to qualify the borrower. Also, if full or partial payments are made on an inconsistent or sporadic basis, the income is not acceptable for qualifying the borrower.

Note: NQM Funding, LLC expects lenders originating loans for sale to NQM Funding, LLC to make appropriate disclosures, as required under the federal Equal Credit Opportunity Act, that child support, alimony, or maintenance income information need not be provided unless the borrower wants the lender to consider such income in underwriting the loan.

COMMISSION INCOME

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

- Most recent year-to-date pay stub reflecting the commission earnings; and
- W-2 forms covering the most recent 2-year period or a complete written Verification of Employment.

A borrower on their current job for less than 2 years with a minimum 2-year history of receiving commission in the same line of work may also qualify to use commission earnings.

If there are large fluctuations, the borrower must provide a signed, written explanation to support the increase or decrease in income. Additional supporting documentation is required to use commission income for qualification when documentation shows a [decline in earnings](#) from one year to the next.

With borrowers that receive a draw against the commission earnings, the draw income is not to be considered in addition to the commission income. Draws are only to be considered income paid in advance of receiving commissions, where the amount is then subtracted once the commissions are earned.

DECLINING INCOME

Declining income sources should be closely reviewed to determine if the income may be used for qualifying purposes. Income showing a consistent decline over the prior years should not be considered as stable or usable income for qualification purposes.

A signed, written explanation for the decline should be obtained from the borrower and/or employer. In instances where there is sufficient information to support the use of the income, the most recent lower income over the prior 2-year period must be used and may not be averaged.

DISABILITY INCOME

Long-term and short-term disability income can be used for qualification. The following documentation should be obtained for both long-term and short-term disability:

- Documentation from either the insurance company or employer providing the payment amount, conditions for termination of payment, and the likelihood of it continuing for at least 3 years.
- Copy of most recent check or bank statement is required if the award letter does not reflect the current payment being received.

Short-term disability also requires the following documentation:

- Signed letter from borrower stating intent to return to work once the disability no longer exists.

- Verification from employer stating that the borrower will be allowed to return to work once the disability no longer exists. The letter must identify the borrower's position and rate of pay upon return. If the future employment income will be less than the disability income, the lower income amount must be used to qualify for the loan.

In documenting disability income, lenders originating loans for sale to NQM Funding, LLC must not make inappropriate and/or unlawful inquiries regarding the nature or severity of the borrower's disability.

DIVIDEND/ INTEREST INCOME

Dividend and interest income derived from investments can be used as qualifying income when the following requirements are met:

Document a two (2) year history of income, as verified by:

- Copies of the borrower's signed federal income tax return; or
- Copies of the account statements

Sufficient assets should remain after closing to continue to generate an acceptable level of earnings. If assets that generated dividend/interest income are being sold as part of the mortgage transaction, the qualifying income must be reduced by a percentage equal to the percentage reduction in the value of the assets that generated the income.

Earnings should generally be averaged over the time period verified when current earnings are consistent with historical dividend and interest earnings.

EMPLOYMENT BY A RELATIVE

Income for borrowers who are employed by a relative must be verified with one of the following:

- Federal income tax returns for the most recent 2 year with transcripts.
- or
- W-2s for the most recent 2 years with transcripts; and
 - Pay stub(s) covering the most recent 30-day period.

Income should be averaged over the 2-year period. Clarification of potential ownership by the borrowers of family-owned businesses may also be required. A borrower may be an officer of a family operated business but not an owner. Verification of their status should be provided by written confirmation obtained from a CPA or legal counsel.

FOREIGN INCOME

Foreign income is income earned by a borrower who is employed by a foreign corporation or a foreign government and is paid in foreign currency. Borrowers may use foreign income to qualify if the following requirements are met:

- Two years U.S. federal income tax returns reflecting the foreign income.
- Income is translated to U.S. dollars.
- Standard income stability and continuance requirements are met.
- Standard documentation requirements apply based on the type of income.
- Income from sanctioned countries administered by OFAC is not allowed.

FOSTER CARE INCOME

Income derived from foster care payments may be considered if there is a 2-year history of receipt and it is expected to continue for the next 3 years.

The income can be verified by letters from the organizations and copies of borrower's deposit slips or bank statements showing regular deposit of the payments, or by providing federal income tax returns for the most recent 2 years. The documentation received must clearly show the number of foster children involved, their ages, and length of care.

Income must be averaged over the 2-year period and may not be considered for children who will reach the age of 19 within 3 years.

HOURLY WAGES

Borrowers paid on an hourly basis, or who may not work a regular 40-hour work week throughout the year, will generally have their income averaged over the minimum employment history required. If there is an indication of declining income, the current income is used instead of the average.

LUMP-SUM DISTRIBUTIONS

Proceeds from the sale of investments held in a 401(k) or IRA account are not eligible as an income source. See [Dividend/Interest Income](#) for related allowable income sources.

MINISTER/ CLERGY INCOME

Ministers are individuals duly ordained, commissioned or licensed by a church or church denomination. Ministers and members of the clergy are generally considered self-employed unless exempted by IRS from self-employment taxes. If exempt, an exception from the IRS must be provided.

Rental or housing allowance received can be considered income for qualifying the borrower. Written documentation, such as a WVOE provided by the church, must be obtained showing receipt of the income. The borrower's pay stub should also reflect receipt of the housing allowance. If the borrower is newly employed, obtain a copy of the church budget (in lieu of a check) showing funds have been allocated for housing allowance. Housing allowance for ministers is non-taxable income and can be grossed up for qualifying.

The church may budget for educational, medical insurance, life insurance, retirement, etc. to be paid on behalf of borrower; however, these items will not be considered as qualifying income, unless exempted by the IRS. The housing allowance, although not subject to federal income taxes, is subject to self-employment taxes. Gross income on Schedule SE of the borrower's 1040 should include housing allowance paid.

NON-TAXABLE INCOME

Non-taxable income can be grossed up by 25%. Examples of non-taxable income may include military allowances for clothing, quarters, and subsistence, child support, worker's compensation, disability retirement, social security income, clergy housing allowance, foster care income, food stamps, income from municipal bonds, and certain types of insurance benefits.

Some income types may contain both taxable and non-taxable income. Federal income tax returns may be required to accurately determine the non-taxable portion. Income may not be grossed-up for calculating [Residual Income](#).

NOTES RECEIVABLE INCOME

Income from notes receivables can be used to qualify provided the income is regular and recurring. The borrower should have a documented history of receiving the income for at least 2 years and can verify that the income will continue for at least 3 years from note on the new mortgage.

A copy of the note confirming the amount, frequency and duration of payments is required along with tax returns for the most recent 2-year period (including Schedule B) and bank statements showing consistent deposits of funds. Income from a recently executed note/contract (less than 12 months) may not be used as qualifying income.

Evidence of receipt for the last 12 months must be verified with either canceled checks, bank deposit slips, of federal income tax returns. A copy of the note verifying payment amount and remaining term of at least 3 years must also be obtained.

PART-TIME/ SECOND JOB INCOME

Income from part-time employment or a second job can be considered stable income if it has been received for the previous 2 years and is likely to continue. Earnings must be documented with current pay stubs and W-2s for the most recent 2-year period. (See FNMA guides for clarification).

PENSION/ RETIREMENT

Pension and retirement income must be verified with any of the following:

- Letters from the organization providing the income.
- Copy of retirement award letters.
- Tax returns for the most recent 2 years
- W-2 forms or 1099 forms for the most recent 2 years
- Bank statements reflecting regular deposits for the most recent 2 months.

PROOF OF CONTINUANCE

If the borrower is of retirement age, proof of continuance does not have to be documented when the income is received from corporate, government or military retirement/pension.

If retirement income is in the form of monthly annuity distributions, such as 401(k) or IRA, proof of continuance for 3 years is required. If the borrower intends to use the retirement account to also satisfy asset requirements, the value of the asset must be reduced by the funds being withdrawn prior to determining a 3-year continuance of income. Assets available beyond the deduction for continuance of income may be used as reserves. See also [Retirement Accounts](#).

FORTHCOMING RETIREMENT

Any borrower presently employed but anticipating retirement within 3 years from note date must be evaluated upon the verified anticipated retirement income. Effective income for borrowers planning to retire (or end employment for other reasons) during the period must include the amount of documented retirement or other benefits to be received, Social Security payments, or other payments expected to be received in retirement. A combination of present earnings and future retirement income does not represent a supportable level of earnings.

PUBLIC ASSISTANCE

Income from government assistance programs, such as food stamps, Aid to Dependent Children, or welfare, can be used as qualifying income provided such income has a reasonable likelihood of continuing for at least 3 years.

The applicant must provide a copy of a benefits awards letter as evidence of eligibility. This documentation must verify the amount of assistance, duration of payment and what portion if any is non-taxable. Verification of receipt of benefits for the previous 2 years can be documented with copies of checks, copies of bank statements, copies of award letter or copies of grant statements.

In documenting and evaluating public assistance income, NQM Funding, LLC expects lenders originating loans for sale to NQM Funding, LLC to comply fully with the requirements of the federal Equal Credit Opportunity Act and applicable state anti-discrimination laws.

RENTAL INCOME

Rental income can be used for qualifying when disclosed on the loan application.

RENTAL INCOME ON THE TAX RETURNS

When tax returns are used for qualifying, rental income should be calculated using the FNMA Cash Flow Analysis Method. When income is being qualified using two-years, an average of income should be used unless the rental income is declining, in which case the most recent year's income should be used for qualifying.

- Cash Flow Analysis of the Schedule E should be completed as follows:
 - Gross Rents and Royalties received
 - Less Total Expenses
 - Plus Depreciation
 - Plus Insurance
 - Plus Mortgage Interest
 - Plus Taxes
 - Plus HOA fees (if included on the Schedule E)
 - Subtotal / 12 (24) months
 - Primary Residence: This figure would be used as net rental income/loss and the full PITIA will be counted as a debt.
 - Rental Property: This figure less the proposed/existing monthly payment will be used to determine net rental income/loss.

RENTAL INCOME NOT ON TAX RETURNS

In instances when tax returns are not provided in the loan file, rental income should be documented in the following manner.

- Evidence of borrower's ownership of the property
- Refinance and/or to document rental income on other REOs:
 - Lease agreement
 - Two months of bank statements demonstrating receipt of rental income.
 - Evidence the rental amount is at market rate, which can be documented via a 1007 or through an online source.
 - 75% of the rental amount on the lease is used for qualifying.
 - Primary Residence: This figure would be used as net rental income/loss and the full PITIA will be counted as a debt.
 - Rental Property: This figure less the proposed/existing monthly payment will be used to determine net rental income/loss.
- **Rental income from a new property being acquired through a purchase transaction:**
 - 75% of the appraiser's opinion of market rent on FNMA Form 1007 or Form 1025, as applicable
 - Primary Residence: This figure would be used as net rental income/loss and the full PITIA will be counted as a debt.
 - Rental Property: This figure less the proposed/existing monthly payment will be used to determine net rental income/loss.
- **Rental Income from a Departing Residence:**
 - 75% of the rental amount on the lease if used for qualifying.
 - Evidence the rental amount is at market rate, which can be documented through an online source or a 1007.

SHORT TERM RENTALS

Short Term Rental (STR) income received directly from a home-sharing service (such as Airbnb, VRBO, HomeAway) may be used for qualification when the following requirements are met on Full and Alt Doc loans. For DSCR loans (1-4 Units Only), see DSCR section of the guidelines for requirements and restrictions. STRs are not permitted for No Ratio. Note that with the exception of condotels, Short Term Rentals (STRs) are ineligible in New York City.

Purchases:

- A 12-month average of the seller's short term rental income may be used for qualifying purposes.
- Market Rent from the 1007/1025 may be used for qualifying with the following restrictions:
 - A 25% vacancy factor is to be applied when long term rentals are used.
 - The AIRDNA occupancy rate from the property's Property Earning Potential/Rentalizer report must be applied to compute the relevant vacancy factor. For example, if the Rentalizer occupancy rate is 60%, a 40% vacancy factor must be applied to the short term rental income from the comparable rent schedule.

- ❖ For 2-4 Units, a report must be pulled on each individual unit in AirDNA, and the sum of all combined units' rental income will be used to determine the rental income.

Refinances:

- Rental verification to be documented with either 1040s along with a Schedule E on a full doc, 12-monthly statements, or an annual statement provided by the online service. In the event the borrower owns a single rental property, bank statements with deposits clearly identified/sourced as rental income can be substituted. If two or more rental properties owned, statements from an online service must be provided to associate rents received with the specific property. The online statements must provide a summary total of the yearly rental income and must clearly identify the associated properties address.
- A screen shot of the online listing must show the property(s) actively marketed as a short-term rental.
- Evidence of property ownership must be documented.

RESTRICTED STOCK UNITS (RSU)

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

Restricted stock options may be used as qualifying income when all of the following requirements are met:

- Income has been consistently received for the prior 2 years, is continuing, and is identified on the borrower's tax returns as income.
- RSU income is calculated using a 2-year average.
 - If the RSU income is declining, proof of stability must be provided, and the most conservative average used for qualifying.
- RSU income must be likely to continue for 3 years.
- Borrower must be employed at the same company that issued the RSUs.
- Employer must be a publicly traded entity (e.g., a Fortune 500 company).
- Non-vested restricted stock is not an acceptable source of income or reserves.
- Income verification obtained through a third-party verification service provider is not allowed.
- Vested RSUs may not be considered as qualifying income if they are also used for down payment, closing costs, and/or reserves.

The following documentation is required:

- Evidence that stock is publicly traded.
- Most recent vesting schedule or issuance agreement showing continuance of RSU income for a minimum of 3 years.
 - To prove 3-year continuance, take the available RSUs from the note date multiplied by the 52-week low stock price divided by 36 months. The monthly amount must be greater than or equal to the monthly qualifying amount.
- Evidence of payouts of RSUs for the past 2 years. Acceptable verification includes:
 - Tax returns for the last 2 years reflecting RSU income,

- o Year-end paystubs reflecting the RSU payout, or
- o Employer-provided statement paired with a brokerage or bank statement showing transfer of shares or funds that include the (a) date of the payout and (b) the number of vested shares and their cash equivalent distributed to the borrower.

SEASONAL INCOME

Income from seasonal employment can be considered if the applicant has worked the same job during the season for the past 2 years and expects to be rehired for the next season.

A written Verification of Employment and W-2s for the most recent 2 years are required. The WVOE must reference the likelihood of the borrowers rehire. Seasonal income should be averaged over a 2-year period.

SELF-EMPLOYED INCOME *NOTE FNMA LIQUIDITY TEST IS NOT REQUIRED

A borrower is considered self-employed with 25% or more ownership interest in a business. The business may be a sole proprietorship, general partnership, limited partnership, corporation, or S corporation.

To utilize self-employed income for loan qualification, borrowers must be self-employed for at least 2 years and the business must be in existence for at least 2 years.

QUALIFYING INCOME

Qualifying income is determined from the tax returns and the P&L is used to determine the stability of that income. The bank statements for the most recent months must reflect deposits that support those sales from the P&L and the qualifying income from the prior year's tax return.

SOLE PROPRIETORSHIP

A sole proprietorship is a business structure in which an individual and his or her company are considered a single entity for tax and liability purposes. Income and losses are reported on the owner's schedule C of the individual federal income tax return.

Documents required for determining income from a sole proprietorship are:

- Federal income tax returns (IRS Form 1040) for the most recent 2 years, including all schedules; and
- Borrower signed and dated year-to-date profit and loss statement up to the most recent month preceding the loan application; and
- Two months business checking account statements for the most recent 2 months on the P&L; and
- Signed and processed IRS form 4506-C (full 1040 transcripts capturing all schedules); and
- Verification of the existence of the business within 30 business days of closing.

PARTNERSHIPS

A partnership is a business organization in which 2 or more individuals manage and operate the business. The partners share profits and losses and control of the business.

Documents required for determining partnership income are:

- Federal income tax returns (IRS Form 1040) for the most recent 2 years, including all schedules; and
- W-2s for the most recent 2 years (if applicable); and
- Partnership tax returns (IRS Form 1065) for the most recent 2 years, including all schedules and K-1s (Note: If borrower is a limited partner with less than 50% ownership, partnership tax returns are not required); and
- Borrower signed and dated year-to-date profit and loss statement up to the most recent month preceding the loan application; and
- Two months business checking account statements for the most recent 2 months on the P&L; and
- Signed and processed IRS form 4506-C (full 1040 transcripts capturing all schedules); and
- Verification of the existence of the business within 30 business days of closing.

CORPORATIONS

A corporation is a legal entity that is separate and distinct from its owners. If a borrower has more than 25% ownership in a corporation, they are considered to be self-employed. A borrower that is self-employed as a corporate officer will receive a pay stub and W-2 and will report income on his or her personal tax returns. Corporate income or losses are reported on the corporate tax returns (IRS Form 1120).

Documents required for determining income from a corporation:

- Federal income tax returns (IRS Form 1040) for the most recent 2 years, including all schedules; and
- W-2s for the most recent 2 years; and
- Corporate tax returns (IRS Form 1120) for the most recent 2 years, including all schedules; and
- Borrower signed and dated year-to-date profit and loss statement up to the most recent month preceding the loan application; and
- Two months business checking account statements for the most recent 2 months on the P&L; and
- Signed and processed IRS form 4506-C (full 1040 transcripts capturing all schedules); and
- Verification of the existence of the business within 30 business days of closing.

S CORPORATIONS

A Subchapter S corporation is a type of corporation which enables the company to have the benefits of a corporation but be taxed as if it were a partnership. S corporations are generally small corporations. The profit of the corporation is given to each owner according to his or her share of ownership. The adjusted profit is then divided by the borrower's share of ownership and combined with W-2 income used for qualifying. Income is reported with both a W-2 and K-1 (reporting on the Schedule E) or only with a K-1.

Documents required for determining income from an S corporation:

- Federal income tax returns (IRS Form 1040) for the most recent 2 years, including all schedules; and
- W-2s for the most recent 2 years; and
- Corporate tax returns (IRS Form 1120-S) for the most recent 2 years, including all schedules and K-1s; and
- Borrower signed and dated year-to-date profit and loss statement up to the most recent month preceding the loan application; and
- Two months business checking account statements for the most recent 2 months on the P&L; and
- Signed and processed IRS form 4506-C (full 1040 transcripts capturing all schedules); and
- Verification of the existence of the business within 30 business days of closing.

1099 INCOME

Payments to sole proprietors or contract individuals are reported on IRS Form 1099 and included in the borrower's schedule C. Tax returns may be waived and wage-earner documentation requirements followed in [Wage-Earners](#) when all of the following requirements are met:

- 1099s for the most recent 2 years are provided or 1 yr with evidence the borrower has been 1099 a minimum of 24 months.
- 1099s are validated with a wage and income transcript from the IRS.
- Year-to-date earnings are verified via a YTD paystub, written VOE, or other equivalent third-party documentation or YTD Bank statements
- Documentation is obtained from employer/employers confirming borrower has no job-related expenses or will assume 10% expenses.

If the borrower does not meet the requirements above, tax returns for the most recent 2 years (IRS Form 1040) are required to determine income and related expenses.

Note: 1099 forms covering a full 2-year period are not required when a borrower changes from being paid W-2s to 1099s while working for the same employer in the same position. Documentation must be obtained from the employer confirming the borrower has no job-related expenses.

REDUCED DOCUMENTATION FOR A SECONDARY BUSINESS

Business tax returns, associated schedules, and profit and loss statements may be waived when all of the following requirements are met:

- Income/loss referenced on personal tax returns is generated from a secondary business that is not the borrower's primary income source; and
- Income/loss from each separate business is $\leq 10\%$ of qualifying income for the transaction; and
- All losses are subtracted from the borrower's qualifying income.

If income from a business is used to qualify the borrower, or if business expenses are added back to income or a loss, then business tax returns, associated schedules, and profit and loss statements must be obtained. Discretion may be used whether or not to obtain all documentation for self-employed earnings when the secondary business may have a significant impact on the loan.

CASH FLOW ANALYSIS

NQM Funding, LLC will prepare a written evaluation of the analysis of a self-employed borrower's personal income, including the business income or loss, reported on the borrower's federal income tax returns.

SOCIAL SECURITY INCOME

When a borrower is drawing Social Security benefits from their own account/work record in the form of Retirement or Disability, one of the following items is required:

- Social Security Administrator's (SSA) Award letter, or
- Proof of current receipt

When a borrower is drawing benefits from their own account/work record in the form of Supplemental Security Income (SSI), both the award letter AND proof of current receipt must be obtained.

When a borrower is drawing Social Security benefits from another person's account/work record, all of the following items are required:

- SSA Award letter
- Proof of current receipt; and
- Proof benefit will continue for at least 3 years (e.g., verification of beneficiary's age)

See also [Non-Taxable](#) Income.

TEACHER INCOME

Teachers are paid on a 9-month, 10-month or 12-month basis. The pay structure should be determined before calculating the monthly income. If uncertainty exists, the borrower may provide a copy of their contract or the school district's personnel office may provide verbal confirmation.

TIPS AND GRATUITIES

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

TRAILING SPOUSE OR CO-BORROWER INCOME/ RELOCATION

Trailing spouse income or co-borrower income to be received when the borrower is being relocated is not allowed to be used as qualifying income.

TRUST INCOME

Trust income can be used for qualification as follows:

- Variable trust payments require a 24-month history of receipt and must be documented by tax returns.
- Fixed trust payments require either:
 - A minimum 12-month history of receipt; OR
 - A minimum of one payment received prior to closing provided:
 - The payments are fixed, AND
 - The borrower is not the grantor of the trust.

In either case, proof of current receipt of the income is required and must be documented with a current bank statement or equivalent documentation.

UNACCEPTABLE INCOME

- Gambling winnings (except lottery continuing for 5 years)
- Educational benefits
- Stock options
- Refunds of federal, state, or local taxes
- Illegal income
- Expense account reimbursement

UNEMPLOYMENT COMPENSATION

Income derived from unemployment compensation is generally not allowed due to the limited duration of its receipt. Seasonal unemployment, however, can be considered if the borrower is employed in a field where weather affects the ability to work and where unemployment compensation is often received (i.e., construction). The income can be used to qualify on with a 2-year employment history in the same field of work and a 2-year history of receipt of unemployment compensation. Income should be averaged over the time period verified.

VA SURVIVORS' BENEFITS/ DEPENDENT CARE

VA benefits must be documented with a copy of the award letter or distribution forms and must continue for at least 3 years.

1-YEAR INCOME DOCUMENTATION

1-Year Alternative Income Documentation is available under the Select Prime Express and Select Prime, Programs. See applicable NQM Funding, LLC Matrix for LTV, and credit score restrictions.

In lieu of the standard 2-year documentation requirement for wage-earners and self-employed borrowers, the following will be accepted:

- Wage-Earners: the most recent year W-2 and pay stub(s) covering the most recent 30-day period providing year-to-date earnings (1099 also acceptable: see [1099 Income](#))
- Self-Employed Full Doc: the most recent year filed federal income tax returns (personal and business; extensions are not allowed) and year-to-date P&L and 2 months business bank statements for the most recent 2 months on the P and L.
- Self-Employed Bank Statements: 12 months complete personal or business bank statements from the same account

Self-employed borrowers must be self-employed for at least 2 years, and the business must be in existence for at least 2 years.

Bonus, overtime, and/or commission income for wage-earners may also be documented for 1 year. A written VOE must be obtained stating that the bonus, overtime, and/or commission income is likely to continue. Supplemental income is not eligible for 1-Year Alternative Income Documentation (i.e., rental income, dividend/interest income, capital gains, alimony, child support, pension, or retirement).

All other requirements for [Full Documentation](#) apply. See the following sections for complete documentation requirements:

- [Wage-Earners](#)
- [Self-Employed Income](#)
- [Personal Bank Statements](#)
- [Business Bank Statements](#)

BANK STATEMENT DOCUMENTATION

GENERAL REQUIREMENTS

Self-employed borrowers are eligible for either Personal Bank Statement Documentation or Business Bank Statement Documentation. The following restrictions apply to both documentation types:

- Borrowers must be self-employed for at least 2 years; and the business must be existence for a minimum of 2 years as evidenced by a letter from either the business tax professional, regulatory agency or licensing bureau. Borrowers with less than 2 years as self-employed may be eligible under one of the following 2 options:
 - **Option 1:**
Must be self-employed for a minimum of 18 months and must have a minimum of three (3) years prior experience in the same line of business.
 - See applicable overlays below.
 - **Option 2:**
Self-employed borrowers in a licensed profession (i.e., Medical, Legal, Accounting) will be considered from a business that's been in existence for less than two (2) years, but greater than one (1) year provided the borrower meets the following requirements:
 - Borrower has at least three (3) years of documented previous experience in the same profession, or
 - Evidence of formal education in a related field, and
 - See applicable overlays below:
- **For Option 1 and Option 2, the following overlays apply:**
 - Minimum 700 score
 - Max LTV of 80% O/O; 75% 2nd Home; 70% for N/O/O
 - Not permitted for Select Prime Express or Super Jumbo
- For borrower's who are independent contractors and do not necessarily own their own business, they may be qualified under the bank statement program and must follow the co-mingled accounts guidance. Evidence of filing tax returns and a Schedule C for 2+ years must be provided

by their CPA/Tax preparer, as well as an Expense Factor and/or P&L supporting their expenses. See [Calculating Qualifying Income](#) for more detail.

- The Employment Section of the application must include a minimum of 2 years employment history.
- Non-Permanent Resident Aliens without U.S. Credit and Foreign Nationals are ineligible.
- Non-Profits and Not for Profits are not permitted.
- At least one of the borrowers must be self-employed.
- Verify the business is active and operating within 30 days of closing with either a phone listing and/or business address using directory assistance or internet search. In instances where an online listing or search is not possible due to the nature of the borrower's employment (i.e. consultants), verification of activity within 30 days of the note date can be provided via evidence of receipt of business income within 30 days of the note supported by either invoices, bank statements showing business deposits, or similar means to support the business' recent operation.
- **Tax returns and 4506-C are not required for the program. If Tax returns and/or Transcript are provided, the loan will be ineligible for the Alt Doc Program.**

BANK STATEMENT ANALYSIS REQUIREMENTS

- Statements must be consecutive and reflect the most recent months available.
- Transaction Histories are not acceptable in lieu of bank statements.
- Bank statements may be obtained from a third-party asset vendor participating in FNMA Day One Certainty.
- Statements must support stable and generally predictable deposits.
- ATM deposits may be included if a consistent pattern of deposits is present.
- Deposits greater than 50% of the average gross deposits over a 12-month period must be sourced.
- Any deposit deemed as non-business income will be excluded from the income analysis.
- Statements should show a trend of ending balances that are stable or increasing over time.
- Decreasing or negative ending balances must be explained.
- Transfers from other accounts must be documented or excluded. Net transfers between accounts must be excluded when multiple accounts are used for qualifying.
- Wire transfer deposits must be sourced as business income or excluded.
- If bank statements provided reflect payments being made on obligations not listed on the credit report, see [Undisclosed Debts](#) for additional guidance.
- The most recent bank statement used for the Bank Statement Analysis must be within 90 days of the Note Date. In the event updated bank statements are provided to source additional assets and/or funds to close, the Bank Statement Analysis would not need to be updated to reflect those updated statements provided the statements in file not expired as of the note date. Any supporting documentation, such as a P&L statement used in conjunction with the bank statements must align with the dates of the bank statements used for qualifying.

ALT DOC COMBINED WITH OTHER INCOME SOURCES

- **W-2 Wages:** Additional income deposited into the bank statements but derived from a source other than the self-employed business may not be included in the bank statement average. W-2 earnings must be documented as per the requirements in [Wage-Earners](#) along with a processed 4506-C verifying the W-2 earnings only.
- **Rental Income:** Borrowers using Bank Statement Documentation, who also receive rental income as a secondary source, are permitted to qualify using both sources of income. When considered, a 25% expense ratio can be used with evidence of deposits of the rent and copies of the lease. The

deposits must be verified through 2 months bank statements from a separate account other than the one used to calculate the self-employed income.

UNDERWRITING NSF

- NSF activity in the past 12 months must be satisfactorily explained by the borrower. Excessive NSF or overdraft activity may preclude the borrower from bank statement eligibility at underwriter's discretion.
- Non-sufficient funds (NSF) or negative balances reflected on the bank statement must be considered unless tied to Overdraft protection. NSF Fees associated with a pre-arranged link to a savings account or line of credit are acceptable when;
 - **Overdraft protection from a depository account:** Occurrences may be excluded if statements for the linked account confirm that (a) the linked account balance at the time of the transfer exceeded the amount of the overdraft transfer, (b) the linked account's balance did not report as zero or negative at any point during the statement period of the transfer, and (c) the linked account did not itself receive overdraft protection proceeds during the statement period of the transfer.
 - **Overdraft protection from a line of credit:** Occurrences may be excluded if statements for the linked account confirm that (a) the line's credit limit was not exceeded during the statement period of the transfer and (b) a payment amount which equals or exceeds the sum of all overdraft protection occurrences analyzed in the statement period is made within 30 days after the statement close date.
- Bounced check NSF fees are not considered when it's a customer's check that was returned.
- **Occurrences included in the analysis are subject to the following tolerances:**
 - An occurrence is defined as one or more checks returned the same day excluding customer checks that were returned. NSFS are reviewed for the past 12 months period only.
 - If there are two (2) or more occurrences in the most recent two (2) month time period, up to five (5) occurrences are allowed in the most recent twelve (12) month time period.
 - If there are zero (0) occurrences in the most recent three (3) month time period, up to seven (7) occurrences in the most recent twelve (12) month time period is acceptable.
- The Underwriter, at their discretion, may consider tolerance deviations outside of the above with a sufficient letter of explanation from the borrower outlining the reason for the occurrences and an explanation of how and when the issue leading to the occurrences was rectified. The letter will be reviewed by the underwriter to ensure the explanation supports the viability of income and overall strength of the transaction.

PERSONAL BANK STATEMENTS – 12- OR 24- MONTHS

Borrowers may provide either 12 or 24 consecutive months of personal bank statements. See the applicable NQM Funding, LLC Matrix for credit score and LTV restrictions.

The following documentation is required (see also [Bank Statement Documentation](#)):

- 12 or 24 months complete personal bank statements from the same account
- Most recent 2 months of BUSINESS bank statements if available. If business account does not exist, see co-mingled guidance below.
- When personal accounts are jointly owned and the other party is not an owner of the business and/or a borrower on the loan, all deposits not able to be readily identifiable as business income must be excluded.

- Verify the borrower owns a minimum of 20% of the business by providing a CPA/tax preparer letter, operating agreement or equivalent reflecting the borrower's ownership percentage.

CALCULATING QUALIFYING INCOME

- Qualifying income using Personal Bank Statement Documentation is the sum of total eligible deposits divided by 12 or 24 months.
- Only transfers or deposits from the business account(s) are considered eligible deposits.

CO-MINGLED ACCOUNTS

Co-mingled accounts are defined as a single account reflecting both personal and business expenses. Co-mingled accounts are considered a business bank statement and one of the Expense Methods under the Business Bank statements section below must be used to calculate the income.

BUSINESS BANK STATEMENTS

Borrowers may provide either 12 or 24 consecutive months of business bank statements. See the applicable NQM Funding, LLC Matrix for credit score and LTV restrictions.

The following documentation is required (see also [Bank Statement Documentation](#)):

- 12- or 24-months complete business bank statements from the same account
- Multiple bank accounts maybe used for multiple businesses.
- Multiple bank accounts may also be used if a borrower shows they closed the initial account to use another.
- Multiple bank accounts maybe used for the same business, provided transfers amount accounts are excluded.
- Business bank accounts, personal bank accounts addressed to a DBA, or personal accounts with evidence of business expenses can be used for qualification.
- Required Expense Statement Documentation applicable to Calculation Option chosen (see [Calculating Qualifying Income](#) for requirements).
- Qualifying Income must be multiplied by the ownership percentage to determine the owner's portion of income allowed for the transaction.
- Verification borrower is minimum 25% owner of business.
 - o Ownership percentage must be documented via Tax Preparer, CPA letter, Operating Agreement, or equivalent.
 - o All non-borrowing owners of the business or the CFO, Tax Preparer, or CPA for the company must provide a signed and dated letter acknowledging the transaction and confirming the borrower's access to the account for income-related purposes.

CALCULATING QUALIFYING INCOME

To calculate qualifying income using Business Bank Statement Documentation, choose one of the documentation options below applicable to the Expense Statement method chosen:

OPTION 1: 50% EXPENSE RATIO

Qualifying Income is the monthly net income from deposits less the 50% expense ratio.

OPTION 2A: P&L FROM A CPA OR TAX PREPARER WITH 12- OR 24- MONTHS BANK STATEMENTS

Qualifying Income is the monthly net income from deposits less the P&L expense ratio (minimum 10%)

Required P&L Documentation:

- P&L Statement covering the same 1- or 2-year period as the bank statements.
- P&L must be signed and dated by the tax preparer.
- The tax preparer must attest that they have prepared the borrower's most recent tax returns.

OPTION 2B: 24 OR 12 MONTHS P&L FROM A CPA OR TAX PREPARER AND 2 MONTHS BANK STATEMENTS

When calculating income with a 12 or 24 months P&L and 2 months bank statements qualifying Income is the monthly net income from the P&L. Depreciation, depletion and amortization/casualty loss listed on the P&L may be added back to the applicant's income.

Required P&L Documentation:

- P&L Statement covering either 24 or 12 months.
- P&L must be signed and dated by the tax preparer.
- The tax preparer must attest that they have prepared the borrower's most recent tax returns.

When P&L is combined with a minimum of 2 months bank statements, the following applies:

- The monthly gross revenue from the P&L, less disallowed deposits/transfers from the bank statements, must be supported by the bank statements provided. Total monthly average deposits per bank statements (minus any disallowed deposits) must be greater than or no more than 20% less than the monthly gross revenue reflected on P&L. Note: The total deposits calculated from the bank statements is used solely to validate self-employed earnings reported on the P&L.

Option 2B temporarily not available in MS.

OPTION 3: THIRD-PARTY PREPARED EXPENSE STATEMENT

Qualifying Income is calculated by determining total deposits per bank statements (minus any disallowed deposits) multiplied by the expense percentage provided by CPA or tax preparer and divided by either 12 or 24 months.

The **Expense** Statement must be prepared and signed by a third-party (CPA or licensed tax preparer) specifying business expenses as a percentage of the gross annual sales/revenue. The tax preparer must attest they have either prepared or

reviewed the borrower's most recent tax return. A minimum 10% Expense Ratio is required.

P&L ONLY

- Available on Select Prime only; not available for Select Prime Express
- Minimum score of 700
- Max Loan Amount \$1,500,000
- Max LTV: 80% for Owner Occupied; or 75% for NOO or Second Home
- 12 or 24 month P&L prepared and signed by CPA or Tax Preparer
- CPA/EA must attest to the fact they have prepared the borrower's most recent tax returns.

ALT DOC – 1099 DOCUMENTATION

1099 Income documentation eligibility is limited to individual borrowers being paid via a 1099 but are not the business owner of the entity issuing the 1099. Self-Employed borrowers who are business owners paying their earnings via a 1099 are not eligible for this income documentation.

- 1099s or 1099 transcripts may be obtained for 1 or 2 calendar years.
- The 1099s must be validated with a wage and income transcript from the IRS, when 1099s are issued to the borrower personally.
- Evidence of year-to-date earnings via YTD bank statements, a printout of YTD wages from their employer/employers or the NQM Funding, LLC VOE with YTD income must be completed by each employer.
- A 10% automatic expense ratio will apply when the 1099 is paid to the borrower individually. In the event the 1099 is paid to the borrower's business, the loan may be considered, however an Expense Letter from the borrower's CPA/Tax preparer is required to determine the qualifying income.

ALT DOC - ASSET UTILIZATION

Asset Utilization may be used to determine qualifying income. See the applicable NQM Funding, LLC Matrix for credit score and LTV restrictions. Asset Utilization is allowed under the Select Prime Alt Doc and Foreign National Programs. Additionally, Asset Utilization may be combined with Select Prime Full Doc. Refer to the Alt Doc matrix for OO LTV limits and the Occupancy Restrictions section in the matrix for Second Homes and Non-Owner-Occupied.

Asset utilization is temporarily not available in MS.

ELIGIBLE ASSETS

Qualified Assets can be comprised of stocks, bonds, mutual funds, vested amount of retirement accounts and bank accounts. If a portion of the Qualified Assets is being used for down payment, closing costs, or reserves, those amounts must be excluded from the balance before analyzing a portfolio for income determination. A four-month seasoning of all assets is required.

All individuals listed on the asset account must be on the note and mortgage. Assets held in the name of a business are not eligible to be used for the asset utilization calculation.

The following assets are considered Qualified Assets and can be utilized to calculate income:

- 100% of checking, savings, and money market accounts
- 80% of the remaining value of stocks & bonds
- 70% of retirement assets (Borrowers younger than 59 ½ use 60%)

Assets held in a trust are eligible as long as the following requirements are met:

- If the funds are held in a revocable trust, the borrower is the trustee
- If the funds are held in an irrevocable trust, the borrower is the beneficiary and the borrower has immediate access to the assets of the trust
- Based on the asset type, use the above percentages to calculate the Qualified Assets.

CALCULATING QUALIFYING INCOME – SELECT PRIME

For the Select Prime Program, to calculate qualifying income using Asset Utilization, choose one of the options below:

OPTION 1: DEBT RATIO CALCULATION in addition to any other income type

When the DTI without asset utilization is 60% or less, then follow the below calculation when determining the amount of income to use as secondary income from assets.

The income calculation is as follows:

$$\text{Monthly Income} = \text{Net Qualified Assets} / 36 \text{ Months}$$

OPTION 2: Debt Ratio CALCULATION ASSET CALCULATION

When the DTI without asset utilization is > 60% or when the borrower's entire income is comprised of income from assets, the monthly income calculation is as follows:

$$\text{Monthly Income} = \text{Net Qualified Assets} / 60 \text{ Months}$$

Employment is left blank.

CALCULATING QUALIFYING INCOME - SUPER JUMBO

Asset Utilization is permitted to supplement employment or other primary source of income, as follows:

The DTI without asset utilization must be < = 50%, then follow the below calculation when determining the amount of income to use as secondary income from assets to attain a Max DTI of 38%.

$$\text{Monthly Income} = \text{Net Qualified Assets} / 84 \text{ Months}$$

RATIOS AND QUALIFYING

RATIOS

The debt-to-income ratio (DTI) is calculated by adding the borrower's total PITIA and the borrower's total monthly obligations and dividing by the borrower's total monthly qualifying income. 55 DTI is available on an exception basis only and only available on O/O products 30 yr fixed with 2 compensating factors from the exception list. (See Exceptions section of this guide)

RESIDUAL INCOME

Minimum residual income thresholds apply to HPML loans or when the DTI is > 43% on OO and 2nd homes only using the following calculation:

$$\text{Residual Income} = \text{Gross Monthly Income} - \text{Total Monthly Obligations}$$

The initial 1003 should reflect the number of members in the household for all borrowers on the transaction.

<u>Number of Household Members</u>	<u>Minimum Residual Income*</u>
1 Person	\$1,500
2 Persons	\$2,500
For each additional household member	\$150

ADJUSTABLE-RATE QUALIFYING

For all ARM loans, the greater of the note rate or the fully indexed rate is used to determine the qualifying PITIA. The fully indexed rate is calculated by adding the margin to the index. See the [Products Section](#) for the margin, index, and other restrictions.

40 YEAR FIXED RATE QUALIFYING (FULLY AMORTIZING AND DSCR)

The following applies to all 40 Year Amortizing loans (non-interest only or DSCR)

- The borrower qualifies with a DTI of below 50% calculated using the payment under a 40-year amortization, and:
- The borrower qualifies with a DTI of below 55% calculated using the payment under a 30-year amortization.

INTEREST-ONLY QUALIFYING

With the exception of DSCR loans, which allow for qualification at the I/O; Interest-only loans qualify using the fully amortized payment calculated over the fully amortizing period, based on the greater of the note rate or the fully indexed rate to determine qualifying PITIA. For example, a 40-year loan

with a 10-year interest-only period would have a 30-year fully amortizing period. A 30-year loan with a 10-year interest-only period would have a 20-year fully amortizing payment.

See the [Products](#) section for DSCR IO qualifications, the margin, index, and other restrictions.

ASSETS

Loan files must evidence sufficient funds from acceptable sources for down payment, closing costs, prepaid items, debt payoff, and applicable reserves. A borrower's ability to accumulate assets provides insight into the individual's ability to successfully manage personal finances. The documentation requirement for all transactions is a single account statement covering a one-month period and be dated within 90 days of the note.

ASSET DOCUMENTATION

Assets must be verified with one of the following:

- Most recent one-months' account statements, or most recent quarterly account statement, indicating opening and closing balances
 - Supporting documentation should be obtained for single, unexplained deposits that exceed 50% of the borrower's gross monthly qualifying income for the loan.
 - When using business assets for reserves/down-payment, large deposits are not required to be sourced. However, if the loan is qualified using Bank Statements under the Alt Doc Program, deposits greater than 50% of the average gross deposits over a 12-month period must be sourced for income qualifying purposes.
 - Documentation of large deposits is not required on refinance transactions
- If account summary page provides the required information, additional pages are not required.
- Written Verification of Deposit (VOD), completed by the financial institution
 - Large disparities between the current balance and the opening balances will require additional verification or supporting documentation
- Account statements must provide all of the following information:
 - Borrower as the account holder
 - Account number
 - Statement date and time period covered
 - Current balance in US dollars

BORROWED FUNDS SECURED BY AN ASSET

Borrowed funds that are secured by an asset can be used as a source of funds for down payment, closing costs, and reserves. Assets that may be used to secure funds include automobiles, artwork, collectibles, real estate, stocks and/or bonds, and 401(k) accounts.

The terms of the secured loan and transfer of funds to the borrower should be documented. The individual providing the secured loan cannot be a party to the transaction.

The monthly payments for the loan secured by non-financial assets must be counted in the debt-to-income ratio. However, when the loan is secured by the borrower's financial assets and there are sufficient assets to pay off the loan currently verified, the monthly payment for the loan does not have to be considered as a long-term debt when qualifying the borrower (as in the case of a 401(k) loan).

If the same financial asset is also used as part of the borrower's financial reserves, adequacy of the borrower's reserves must be determined after taking into consideration the net value of the asset after it has been reduced by the proceeds from the secured loan (and any related fees).

BUSINESS ASSETS

Business assets are an acceptable source of funds for down payment, closing costs, and reserves for self-employed borrowers. Large deposits are not required to be evaluated when using business assets to qualify.

The borrowers on the loan must have a minimum of 25% ownership of the business and must be owners on the business account for all programs outside of No Ratio loans. Ownership percentage must be documented via CPA letter, Operating Agreement, or equivalent. The transaction must be acknowledged and the borrower's access to the funds in the account must be documented via one of the following:

- A letter signed and dated by all non-borrowing owners of the business, or
- A letter signed and dated by the CFO or Board of Directors.
-

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. For No Ratio loans, business accounts may only be used if the borrowers are 100% owners of the business.

COLLEGE SAVINGS ACCOUNT – 529 PLAN

Typically, a 529 College Savings Plan is an eligible source of funds provided that the borrower is the owner of the account, and the account is revocable. A copy of the plan is required to ensure it is a savings plan, and not a prepaid tuition plan. 529 accounts may be used to satisfy reserve requirements at 60% of the value.

DEPOSITORY ACCOUNTS

Funds held in a checking, savings, money market, certificate of deposit, or other depository accounts can be used for down payment, closing costs, and reserves.

Indications of borrowed funds must be investigated, including recently opened accounts, recent large deposits, or account balances that are considerably greater than the average balance over the previous few months. A signed, written explanation of the source of funds should be obtained from the borrower and the source of funds verified. Unverified funds are not acceptable. See also [Asset Documentation](#).

If the borrower does not hold the deposit account solely, all non-borrower parties on the account (excluding a non-borrowing spouse) must provide a written statement that the borrower has full access and use of the funds. See also [Spousal Accounts](#).

If bank statements provided reflect payments being made on obligations not listed on the credit report, see [Undisclosed Debts](#) for additional guidance.

EARNEST MONEY/ CASH DEPOSIT ON SALES CONTRACT

If earnest money is needed to meet the borrower's minimum contribution requirement, it must be verified that the funds are from an acceptable source. Satisfactory documentation includes any of the following:

- Copy of the borrower's canceled check.
- Certification from the deposit holder acknowledging receipt of funds.
- VOD or bank statement showing that the average balance was sufficient to cover the amount of the earnest money at the time of the deposit.
- If funds were given over 12 months ago per the sales contract than an escrow letter will suffice for sourcing of any funds given greater than 12 months from the closing date.

If the earnest money check has cleared the bank, bank statements should cover the period up to and including the date the check cleared the account. A copy of the check that has not cleared may also be obtained along with a processor's certification verifying with the bank the date the check cleared, the dollar amount of the check, and the individual providing the information.

EMPLOYER ASSISTANCE

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

Documentation Requirements:

- That the Assistance program is an established company program, not just an accommodation developed for an individual employee.
- The dollar amount of the employer's assistance.
- An unsecured loan from an employer with an award letter or legal agreement from the note holder and must disclose the terms and conditions of the loan.
- The terms of any other employee assistance being offered to the borrower (such as relocation benefits or gifts).
- That the borrower received the employer assistance funds directly from the employer (or through the employer-affiliated credit union).

GIFT FUNDS

Gift funds are allowed after the borrower has made the [minimum required borrower contribution](#) towards the down payment.

- Gift funds can be used for down payment and closing costs. It is not considered gift funds if the funds are from a spouse that will be on the contract and title.
- Gift funds may not be used to meet reserve requirements.

A gift can be provided by:

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

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

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

- Donor's name, address, phone, and relationship to borrower (donor must be a relative, spouse or domestic partner); and
- Dollar amount of gift; 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 account. Acceptable documentation includes any of the following:

- Copy of the donor's check and the borrower's deposit slip.
- Copy of the donor's withdrawal slip and the borrower's deposit slip.
- Copy of the donor's check to the closing agent.
- Evidence of wire transfer from donor to borrower
- 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 wiretransfer.

See also [Spousal Accounts](#).

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

- **For Owner-occupied properties:**
 - Max LTV per the matrix permitted with 5% down payment from the borrower's own funds.
 - 100% gift funds are allowed for downpayment and closing costs on Select Prime, using Full or Alt Doc on owner-occupied loans with a 5% reduction in LTV to a maximum of 80% LTV.
 - For the Super Jumbo Program, gift funds are acceptable on Purchase transactions, after the borrower meets a minimum contribution of 20% towards the down payment, closing costs, prepaids and reserves from their own funds.
- **For Second Home and Investment properties:**
 - Gift funds are acceptable only if a 10% down payment has been made by the borrower from their own funds.
- **Foreign Nationals:**
 - Gift funds are allowed on Foreign Nationals for countries that can be documented to have restrictions on funds leaving the country to a max of 70% LTV. See the [Foreign National Assets](#) section in this guide for clarification.
- In all instances, borrower(s) must meet reserve requirements with their own funds.

GIFT OF EQUITY

Gifts of equity on non-arm's length transactions are allowed. Transactions with gifts of equity are subject to the maximum LTVs available for cash-out transactions, and no minimum borrower contribution is required.

The following requirements apply:

- Primary residence transactions only
- Gift of equity is from an immediate family member.
- Six months of reserves required of borrower's own funds.
- [Non-arm's length](#) criteria is met.
- Signed gift letter is provided.
- Gift of equity is listed on the settlement statement.

FOREIGN ASSETS

For U.S. citizen and permanent resident alien borrowers, all funds required for down payment, closing costs, and reserves must be seasoned for 60 days. See [Asset Documentation](#). Foreign assets deposited into a U.S. institution within 60 days of application is acceptable if there is evidence that the funds were transferred from the country from which the borrower previously or currently resides. It must also be established that the funds belonged to the borrower before the date of transfer.

Funds required for closing (down payment and closing costs) must be seasoned in a U.S. depository institution for 10 days prior to closing or wired directly to the closing agent.

Assets held in a foreign account can be used for reserves. The most recent 30-day account statement is required, and funds are to be converted to U.S. dollars using the current exchange rate. A letter of reference on company letterhead from a verifiable banking institution may also be obtained. Contact information must be provided by the person signing the letter, and the letter must state the type of relationship, length of the relationship, how accounts are held, and current balance. Any translation must be signed and dated by a certified translator. Refer to the [Gift Funds](#) and [Foreign National Assets](#) sections for additional Foreign National requirements.

INTERESTED PARTY CONTRIBUTIONS

MAXIMUM CONTRIBUTIONS		
Occupancy	LTV	MAX PERCENTAGE
Primary and 2 nd Homes	≤ 75%	9%
	75.01% - 90%	6%
Investment	ALL	6%
<i>Note: Percentage is based on of the lesser of the property's sales price or appraised value and may be applied towards the buyer's closing costs, prepaid expenses, discount points, and other financing concessions.</i>		

Sales concessions include:

- Financing concessions more than the max financing concession limitations; or
- Contributions such as cash, furniture, automobiles, decorator allowances, moving costs, and other giveaways granted by any interested party to the transaction (contributions with a combined value under \$1,000 should be excluded)

The value of sales concessions must be deducted from the sales price when calculating LTV for underwriting and eligibility purposes. The LTV is then calculated using the lower of the reduced purchase price or the appraised value.

LIFE INSURANCE

Net proceeds from the surrender of a life insurance policy or from a loan against the cash value are acceptable for down payment, closing costs, and reserves.

If the funds are needed for the down payment or closing costs, sellers must document the borrower's receipt of the funds from the insurance company by obtaining either a copy of the check from the insurer or a copy of the payout statement issued by the insurer. If the cash value of the life insurance is being used for reserves, the cash value must be documented but does not need to be liquidated and received by the borrower.

Any repayment obligations must be assessed to determine any impact on borrower qualification or reserves. If penalties for failure to repay the loan are limited to the surrender of the policy, payments on a loan secured by the cash value of a borrower's life insurance policy do not have to be considered in the total debt-to-income ratio. If additional obligations are indicated, the amount must be factored into the total debt-to-income ratio or subtracted from the borrower's reserves.

MINIMUM BORROWER CONTRIBUTION

Borrowers must contribute a minimum of 5% of their own funds towards the down payment on purchase transactions.

Gift funds allowed for ITIN as follows:

- For OO with 5% minimum contribution from own funds; and
- For SH with 10% minimum contribution from own funds.
- 100% of down payment and closing cost may come from a gifted funds for OO and SH to 75% LTV.
- Gift funds not allowed on NOO.

Gift funds are allowed for Foreign National borrowers with 10% of their own funds, as follows:

- For Foreign National borrowers, gift funds are allowed for countries that can be documented to have restrictions on funds leaving the country to a max of 70% LTV. See the [Foreign National Assets](#) section in this guide for additional requirements and clarification.

A minimum borrower contribution of 10% is required on the following transactions:

- Primary residence with unverifiable housing history
- Second home
- Investment Properties
- Limited tradelines
- Gift Funds may not satisfy reserve requirements.

NET PROCEEDS FROM SALE OF REAL ESTATE

If part of the down payment is expected to be paid from the sale of the borrower's current home, a final signed settlement statement verifying sufficient net proceeds must be obtained.

NON-REGULATED FINANCIAL ASSETS

Crypto Currency – such as Bitcoin and Ethereum are eligible sources of funds for the down payment, closing costs and reserves. Crypto is not an eligible liquid asset for asset utilization / depletion.

- Down payment and closing costs: currency must be liquidated and deposited into an established US bank account.
- Reserves: Loan file must include a statement meeting the requirements under account statements to document ownership of the crypto holdings. Current valuation, within 30-days of the loan note date, can only be determined from the Coinbase exchange. 60% of the current valuation will be considered eligible funds.

RENT CREDIT FOR LEASE WITH PURCHASE OPTION

Borrowers may apply a portion of the rent paid to their down payment requirements. Credit for the down payment is determined by calculating the difference between the market rent and the actual rent paid for the last 12 months. The market rent is determined by the appraiser in the appraisal for the subject property. See [Lease with Purchase Option](#) for full requirements.

The following documentation must be obtained:

- Copy of the rental/purchase agreement evidencing a minimum original term of at least 12 months, clearly stating the monthly rental amount and the terms of the lease.
- Copies of the borrower's canceled checks or money order receipts for the last 12 months evidencing the rental payments.
- Market rents as determined by the subject property appraisal.

RETIREMENT ACCOUNTS

Vested funds from individual retirement accounts (IRA/SEP/Keogh accounts) and tax-favored retirement savings accounts (401(k) accounts) are acceptable sources of funds for the down payment, closing costs, and reserves. The lender must verify the ownership of the account and confirm that the account is vested and allows withdrawals regardless of current employment status.

If the retirement assets are in the form of stocks, bonds, or mutual funds, the account must meet the requirements of [Stocks, Bonds, and Mutual Funds](#) for determining value and whether documentation of the borrower's actual receipt of funds is required when used for the down payment and closing costs. When funds from retirement accounts are used for reserves, the funds do not have to be withdrawn from the account.

If the borrower intends to use the retirement account to also satisfy income requirements, see also [Proof of Continuance](#).

SALE OF PERSONAL ASSETS

Proceeds from the sale of personal assets are an acceptable source of funds for down payment, closing costs, and reserves, provided the individual purchasing the asset is not a party to the property sale or mortgage financing transaction.

The following must be documented:

- Borrower's ownership of the asset
- Value of the asset, as determined by an independent and reputable source.
- Transfer of ownership of the asset, as documented by either a bill of sale or a statement from the purchaser.
- Borrower's receipt of the sale proceeds from documents such as deposit slips, bank statements, or copies of the purchaser's canceled check.

SECONDARY/ SUBORDINATE FINANCING

Secondary or subordinate financing is allowed to the maximum CLTVs listed on the applicable matrices with the following requirements.

Secondary financing is permitted for investor-occupied purchase transactions if they are full doc only and the 2nd is institutional. Existing subordinate financing is permitted on a refinance of an investment property for all doc types.

If the subordinate financing has a simultaneous closing, the following is required:

- A copy of the loan approval and repayment terms for the new financing; and
- A copy of the executed note at closing.

If the subordinate financing is being subordinated, the following is required:

- The repayment terms of the existing second lien.
- An unsigned copy of the subordination agreement prior to closing; and
- A copy of the executed subordination agreement at closing.

The following requirements apply to all subordinate liens:

- Seller-held subordinate liens are not permitted.
- Subordinate financing must be recorded and clearly subordinate to the new mortgage.
- Payment on the subordinate financing must be included the borrower's DTI. If a payment is unable to be determined, 1.5% of the original loan balance can be used.
- If the debt is an equity line of credit, the CLTV ratio is calculated by adding the total HELOC credit line limit (rather than the amount of the HELOC in use) to the first mortgage amount, plus any other subordinate financing, and dividing that sum by the value of the property.
- Negative amortization is not allowed, and the scheduled payments must be sufficient to cover at least the interest due.
- Subordinate financing from the borrower's employer may not include a provision requiring payment upon termination.

Subordinate liens can be paid off through closing. See [Rate/Term Refinance](#) and [Cash-out Refinance](#) for more information.

SPOUSAL ACCOUNTS

Accounts held solely in the name of a non-borrowing spouse may be used for down payment and closing costs only and are subject to the seasoning requirements outlined in [Asset Documentation](#).

Accounts held solely in the name of a non-borrowing spouse may not be used to meet reserve requirements unless the spouse will also be on title.

STOCK OPTIONS

Vested stock options are an acceptable source of funds for down payment and closing costs when immediately available to the borrower. Stock options may not be used to meet reserve requirements. The value of vested stock options can be documented by:

- Referencing a statement listing the number of options and the option price; and
- Determining the gain that would be realized from exercise of an option and the sale of the optioned stock using the current stock price.

STOCKS, BONDS, AND MUTUAL FUNDS

Vested assets in the form of stocks, government bonds, and mutual funds are acceptable sources of funds for the down payment, closing costs, and reserves provided their value can be verified. The borrower's ownership of the account or asset must be verified.

When used for the down payment or closing costs, if the value of the asset is at least 20% more than the portion of the amount of funds needed from the stocks, bonds, or mutual funds for the down payment and closing costs, no documentation of the borrower's actual receipt of funds realized from the sale or liquidation is required. Otherwise, evidence of the borrower's actual receipt of funds realized from the sale or liquidation must be documented.

When used for reserves, 100% of the value of the assets (as determined above) may be considered, and liquidation is not required.

TRUST ACCOUNTS

Funds disbursed from a borrower's trust account are an acceptable source for down payment, closing costs, and reserves provided the borrower has immediate access to the funds.

To document trust account funds, both of the following must be obtained:

- Written documentation of the value of the trust account from either the trust manager or the trustee; and
- The conditions under which the borrower has access to the funds and the effect, if any, that the withdrawal of funds will have on trust income used in qualifying the borrower for the mortgage.

See [Trust Income](#) if trust is also being used as a source of income to qualify the borrower.

UNACCEPTABLE FUNDS

- Cash-on-hand
- Sweat equity.
- Gift or grant funds which must be repaid.
- Down payment assistance programs
- Unsecured loans or cash advances
- Section 8 Voucher Assistance

RESERVES

Reserves are measured by the number of months of housing expense a borrower could pay using his or her financial assets. See the applicable NQM Funding, LLC Matrix for complete reserve requirements. The highest reserve requirement, rather than a cumulative total, should be used when a transaction has multiple required reserves.

- Net proceeds from cash-out transactions can be used to meet the reserve requirement.
- Gift funds may only be considered on Foreign Nationals.
- 1031 Exchange funds cannot be used towards reserves.

Reserves from a person that is party to the transaction is not considered a gift. They must be on the contract and Title on a purchase and must be on title at time of application for a Refi.

Refer to matrices for reserves requirements based on loan amounts for Select Prime and when to follow DU Findings for Select Prime Express.

Under the debt consolidation guides maximum 3 months reserves required.

Under Rate and Term, the reserve requirement is 3 months if saving the borrower 10% in payment.

PROPERTY

GENERAL PROPERTY REQUIREMENTS

A completed appraisal report is required on all loan transactions to assess the adequacy of the property as collateral for the mortgage requested. The client is responsible for all of the following:

- Ensuring the accuracy and completeness of the appraisal and its assessment of the marketability of the property
- Reviewing the completed appraisal report to determine whether the subject property presents adequate collateral for the mortgage.
- Ensuring that the appraiser uses sound reasoning and provides evidence to support the methodology used for developing the value opinion.
- Ensuring that the appraiser provides an accurate opinion, an adequately supported value, and an accurate description of the property.
- Ensuring that the appraiser provides his or her license or certification on the appraisal report.
- Complying with the Appraiser Independence Requirements published by Fannie Mae/Freddie Mac and the requirements of the Federal Truth in Lending Act and Regulation Z with respect to valuation independence.
- Disclosing to the appraiser any information about the subject property of which it is aware of that could impact the marketability of the property.
- Providing the appraiser with the ratified sales contract and other financing or sales concessions that are associated with the transaction.
- Ordering and receiving the appraisal report for each mortgage transaction.
- Ensuring the appraiser does not use unsupported assumptions or use race, color, religion, sex, handicap, familial status, national origin for any party in the transaction, or impermissible demographics of the community in which the property is located, as the basis for market value.

APPRAISAL INDEPENDENCE POLICY STATEMENT

It is the policy of NQM Funding, LLC to comply with all the requirements of the Appraiser Independence Policy provisions of Dodd-Frank as adopted by Fannie Mae, Freddie Mac, and the mortgage industry in general. NQM Funding, LLC will only accept appraisals completed by appraisers who are properly licensed or certified in the state which the property is to be appraised is located.

- Appraisal orders may not contain any estimated or requested value.
- Comparable sales may not be suggested to the appraiser.
- The appraisal must be ordered online through the appraisal company's website, with proof of same retained in the e-loan file.
- Appraisal order date may NOT be prior to initial signed dated borrowers Application and "Intent to Proceed" issued with the initial application and disclosure package.
- A copy of the appraisal is required to be sent to the borrower on all loans regardless of whether the loan is closed, cancelled, or denied. Borrowers must receive a copy of their appraisal within 3 business days of the time it is delivered to NQM Funding, LLC from the appraisal management company and/or appraiser.

APPROVED APPRAISAL MANAGEMENT COMPANIES (AMC)

Retail and Wholesale Appraisals are to be ordered through the NQM Funding, LLC appraisal desk, with the exception of transferred appraisal which must be in compliance with the Appraisal Transfer Policy

Correspondents are responsible for ensuring appraisal orders through their approved AMCs or fee panel appraisals comply with the Dodd-Frank Appraisal Independent Policy. The AMCs are responsible to ensure that appraisers selected are fully licensed, insured and meet all NQM Funding, LLC requirements. Any noted aberrations or concerns are referred to the AMC for discussion and resolution, which can result in removing appraisers from being allowed to perform for NQM Funding, LLC

APPRAISAL TRANSFER POLICY

Transferred appraisals are only allowed when the client has received prior approval from NQM Funding, LLC To ensure compliance with the Appraiser Independence Requirements, the following items are required for consideration:

- Evidence appraisal was ordered according to Appraisal Independence Requirements,
- Appraisal Invoice along with proof of payment unless being paid through closing,
- Transfer Letter, signed by an employee of the transferring lender who is not in a production capacity (i.e., Loan Officer, Loan Officer Assistants, etc. are not eligible to sign the transfer letter),
- SSRs, and
- MISMO .XML format of the full appraisal including color photos.

Transfers are fully reviewed by underwriting, which may still reject the appraisal if not deemed acceptable.

NQM Funding, LLC will transfer appraisals out upon request on denied or withdrawn loans, and will provide appropriate documentation, AIR certs and transfer letters as needed.

REQUEST FOR APPRAISAL RECONSIDERATION

If there is a reasonable basis to believe that the initial appraisal was flawed or tainted and such basis is clearly and appropriately noted in the loan file, Corporate Appraisal Management will review and may authorize a second appraisal order in cooperation with Underwriting Management by requesting underwriting review and determine acceptability. This is done on exception basis only and is not allowed just because a party to the transaction does not agree with the value on the original appraisal.

The *Appraisal Reconsideration Form* (located on the Intranet under Forms) must be completed and submitted with any documentation via email to the Appraisal Management Area.

AMCs have their own Reconsideration Form, and the appropriate form must be used if a dispute is being requested for any appraisal ordered through an AMC.

ORDERING / AUTHORIZING A SECOND APPRAISAL

Ordering, obtaining, using, or paying for a second or subsequent appraisal or automated valuation model (AVM) in connection with a mortgage financing transaction is generally not allowed except under specific circumstances.

- If the program requires a second appraisal, the same process is followed to order the appraisal, unless the program requires that the appraisal be ordered from a specific source. In that instance, the lower of the two values is used to determine LTV eligibility.
- If the Underwriter requires a second appraisal or review appraisal because they identify flaws or issue with the initial appraisal, a second appraisal may be ordered.
 - o Should a second appraisal be ordered after underwriting review (or as noted, approved and allowed by senior management on an exception basis), the valuation shall be determined by the second appraisal, regardless of whether the value is higher or lower than the original appraisal. [i.e., if the second appraisal returns a higher or lower value than the first appraisal, second appraisal will be used to establish value; cannot revert to original appraisal.

CHARGES FOR SECOND APPRAISAL OR INSPECTION

Second appraisals and/or inspections, unless previously disclosed on the Loan Estimate may not be charged to the borrower in most cases. It is advised to correctly disclose appraisal, second appraisal and/or inspection fees (if required by program or if anticipated to be required) at the time the initial Loan Estimate is issued.

Should a program change necessitate a second appraisal or inspection, a correctly completed re-disclosure and Change of Circumstance must be completed to enable the amount to be charged to the borrowers.

COMPLAINT PROCESSES

NQM Funding, LLC shall not retaliate, in any manner or method, against any person or entity that makes a complaint to any controlling body or regulator and shall respond promptly to any complaint upon receipt.

NQM Funding, LLC has an 800 number to receive complaints regarding appraisal concerns with access given to appraisers, borrowers and all third parties.

- Email address is appraisaldesk@nqm.com
- The phone number is 866-435-2562

UNIFORM RESIDENTIAL APPRAISAL REPORT (URAR)

Appraisers are required to use current appraisal report forms that are acceptable to Fannie Mae and/or Freddie Mac. The following appraisal report forms should be used:

- Uniform Residential Appraisal Form (FNMA Form 1004)
- Small Residential Income Property Appraisal Report (FNMA Form 1025)
- Individual Condominium Unit Appraisal Report (FNMA Form 1073)
- Appraisal Update and/or Completion Report (FNMA Form 1004D)
- Single Family Comparable Rent Schedule for all 1-unit investment properties (FNMA Form 1007)
- 1-4 Family Rider (Assignment of Rents) for all investment properties (FNMA Form 3170)

APPRAISAL REPORT REQUIREMENTS

The following items must be contained in the appraisal report:

- Street map showing the location of the subject property and all comparable used.
- Exterior building sketch of the improvements indicating dimensions. A floor plan sketch is required along with calculations demonstrating how the estimate for gross living area is determined. For a unit in a condo project, the sketch of the unit must indicate interior perimeter unit dimensions rather than exterior building dimensions.
- Original color photographs or digital color images of the front, street, and rear views of the subject property. Original digital black and white photographs/pictures are permitted if the appraisal clearly indicates the subject property meets our standards.
- Interior photos of the subject are required to include the kitchen, all bathrooms, the main living area, any areas with physical deterioration, and any renovations/ improvements.
- Any other data as an attachment or addendum to the appraisal report form necessary to provide an adequately supported estimate of market value.
- Appraisal report must contain analysis of all agreements of sale, options or listings for the subject property current as of the effective date of the appraisal, and analysis of all sales of the subject property that occurred within the 3 years prior to the effective date of the appraisal.
- Appraisal report must include a completed Sales Comparison Approach section of FNMA Form 1004 where there are comparable used with more than one sale or transfer in the 12 months prior to the effective date of the appraisal.
- Appraiser must identify if property is located in a declining market. A 5% LTV reduction off Matrix Max LTV applies to properties in declining markets. If Borrower is financing $\geq 5\%$ below the Matrix Max LTV, a reduction is not required.
- Appraiser comments on any unfavorable conditions, such as adverse environmental or economic factors, and how those conditions impact the market value of the property. In those cases, the appraiser's analysis must reflect and include comparable sales that are similarly affected.
- Certification and Statement of Limiting Conditions signed by the appraiser.

APPRAISER QUALIFICATIONS

Real estate appraisers are to be state-certified or state-licensed in accordance with the provisions of Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989. They must have the requisite knowledge required to perform a professional quality appraisal for

the specific geographic location and property type as well as have access to the necessary and appropriate data sources for the appropriate area of the appraisal assignment.

The seller must have a process in place to ensure the appraisers it selects have the appropriate knowledge, experience, access to the appropriate data sources, geographic competence, and the ability to generate a quality appraisal report. The seller may choose to use an appraisal management company; however, the seller must establish appropriate procedures and qualifications and continue to meet all requirements noted in these guidelines.

An unlicensed or uncertified appraiser who works as an employee or subcontractor of a licensed appraiser may perform a significant amount of the appraisal as long as the appraisal report is signed by a licensed or certified appraiser and is acceptable under state law. A supervisory appraiser or any appraiser signing on the left-hand side of the appraisal report as the “Appraiser” must have performed the level of inspection of the subject property required by the assignment.

ELECTRONIC SUBMISSION OF APPRAISAL REPORT

Appraisal reports which have been transmitted electronically using internet, wireless transmissions, or other types of electronic transmissions are acceptable, provided the following are met:

- The appraisal report accurately identifies the appraiser and is signed by the appraiser. Digitized signatures are acceptable.
- The appraisal report was created by the appraiser whose name appears on the appraisal report and that the appraisal is complete, unaltered, and submitted by the identified appraiser.

AGE OF APPRAISAL AND APPRAISAL UPDATES

Residential Appraisal (1-4 Units):

The appraisal must be dated within 365 days of the Note date. A recertification of value is required if the report exceeds 120 days of the Note Date. Refer to the [Appraisal Report Requirements](#) section for details.

When an appraisal report will be more than 4 months old (120 days) on the date of the Note and Mortgage, regardless of whether the property was appraised as proposed or existing construction, the appraiser must inspect the exterior of the property and review current market data to determine whether the property has declined in value since the date of the original appraisal. This inspection and results of the analysis must be reported on the Appraisal Update and/or Completion Report (Form 1004D), a photograph of the front of the subject property must be included.

- If the appraiser indicates on the Form 1004D that the property value has declined, then the seller must obtain a new appraisal for the property.
- If the appraiser indicates on the Form 1004D that the property value has not declined, then the seller may proceed with the loan in process without requiring any additional fieldwork.

The original appraiser should complete the appraisal update; however, sellers may use substitute appraisers. When updates are completed by substitute appraisers, the substitute appraiser must review the original appraisal and express an opinion about whether the original

appraiser's opinion of market value was reasonable on the date of the original appraisal report. The seller must note in the file why the original appraiser was not used.

Commercial Appraisal (5-10-units multi-family or 2-8-units mixed use):

Appraisals dated fewer than 120 days prior to the Note date are acceptable. After 120 days, a new appraisal is required.

MINIMUM PROPERTY STANDARDS

All properties must:

- Be improved real property.
- Be designed and available for year around residential use.
- Contain a kitchen and a bathroom.
- For single family, 2+, condominium and condotel, and DSCR 5-10 Residential or 2-8 Mixed Use, must contain a minimum 400 square feet per unit.
- Be heated by a continuously fueled heat source which is permanently affixed to the real estate. Alternative heat sources are acceptable when marketability has been demonstrated.
- Average or better than average condition
- Represent the "highest and best" use of the subject.
- Be free of all health and safety violations.
- NOT be in violation of any housing codes or exhibit items that adversely affect the ownership, habitability, or marketability of the subject property.

PROPERTY LOCATION

See applicable NQM Funding, LLC Matrix. Subject property must be subject to the laws of the state in which the loan is made.

ELIGIBLE PROPERTY TYPES

PROPERTY ELIGIBILITY	
PROPERTY TYPE	ELIGIBLE
Single-Family Residence	Yes
Planned Unit Development (PUD)	Yes
Townhomes	Yes
2-4 Unit Multi-Family Properties*	Yes
<u>Condominium (low-rise and high-rise)*</u>	Yes
Log Homes	Yes
<u>Mixed-Use Properties</u>	Yes
<u>Modular Homes</u>	Yes
<u>Non-Warrantable Condominiums*</u>	Yes
<u>Site Condominium</u>	Yes

Assisted Living/Continuing Care Facilities	No
Boarding Houses	No
Co-operative Units	No
<u>Condotels or Condo Hotels*</u>	Yes
Farms or Hobby Farms	No
Properties receiving tax abatements or incentives for farming	No
Properties located on islands not connected to the mainland by a bridge	Will be considered on a case-by-case basis
Manufactured Homes	No
Properties Subject to Rent Control Regulations <i>Permitted when the restriction is only due to limiting the increase of rents to a certain percentage per year</i>	No
Unique Properties (Earth Homes, Berm Homes, Dome Homes, etc.)	No
Timeshares	No
*See the applicable NQM Funding, LLC Matrix for LTV restrictions.	

MARKET ANALYSIS

NEIGHBORHOOD REVIEW

The neighborhood section should contain an accurate description of the subject's neighborhood and any factors about the neighborhood that may influence value. Specific neighborhood characteristics include the following:

- Degree of development
- Demand and supply
- Present land use
- Owner-occupancy
- Price range and predominant value
- Age of subject property
- Appeal to market and marketing time

COMPATIBILITY OF SUBJECT PROPERTY AND NEIGHBORHOOD

The age and price of the subject property should generally be within the age and price ranges of properties in the subject neighborhood as reported on the URAR. Neighborhood factors indicating compatibility of the subject, such as present land use, predominant occupancy, and anticipated change in present land use are considered. Residential properties in areas that are zoned as either agricultural or commercial may be considered acceptable risks so long as their location does not impact marketability.

PROXIMITY OF COMPARABLES TO SUBJECT PROPERTY

Whenever possible, comparable sales in the same neighborhood as the subject property should be used. Sales prices of comparable properties in the neighborhood should reflect the same positive and negative location characteristics.

For properties in established subdivisions, condo projects or PUDs, comparable sales from within the same subdivision or project as the subject property must be used if the subdivision or project

has resale activity. Use of comparable properties located outside of the established subject neighborhood must be explained in the appraisal analysis.

For properties in new subdivisions, condo projects or PUDs, the subject property must be compared to other properties in its general market area as well as to properties within the subject subdivision or project. The appraiser must select one comparable sale from the subject subdivision or project and one comparable sale from outside the subject subdivision or project. The third comparable sale can be from inside or outside of the subject subdivision or project, provided it is a good indicator of value for the subject property.

AGE OF COMPARABLES

Generally, appraisals should contain comparable sales dated within 6 months from the report date. Comparable from 6 to 12 months are permitted on a limited basis with an explanation from the appraiser. Older comparable sales that are the best indicator of value for the subject property may be used if appropriate. Value must be supported, and market acceptance demonstrated when older comparable are utilized.

PROPERTY VALUES WITHIN MARKET AREA

The value of subject property should be in line with the home prices in the subject's market area. The appraiser must report the primary indicators of market condition for properties in the subject neighborhood as of the effective date of the appraisal by noting the following:

- the trend of property values
- the supply of properties in the subject neighborhood
- marketing time for properties

The appraiser must provide their conclusions for the reasons a market is experiencing declining property values, an over-supply of properties, or marketing times over 6 months.

REDLINING PROHIBITION

Prohibited bases such as race, ethnicity, gender, minority geography or any other prohibited basis category should not be included as an appraisal factor or considered when reviewing an appraisal. As a matter of policy, appraisal reports which make reference to a prohibited basis category (e.g., race or minority geography) are not acceptable. The use of code phrases as proxies for race which are not necessarily descriptive of value or risk is unacceptable. The information in the appraisal report must support in an objective manner any statement or conclusion contained in the report.

OVER-IMPROVEMENTS

An over-improvement is an improvement that costs more than its contributory value within the marketplace. The appraiser must comment on over-improvements and indicate their contributory value in the "sales comparison analysis" adjustment grid. Improvements can represent an over-improvement for the neighborhood, but still be within the neighborhood price range—such as a property with an in-ground swimming pool, a large addition, or an oversized garage in a market that does not demand these kinds of improvements. Appraisals on properties with over-improvements that may not be acceptable to the typical purchaser must

be reviewed to ensure that only the contributory value of the over-improvement is reflected in the appraisal analysis.

VALUATION ANALYSIS

SALES COMPARISON APPROACH

Each appraisal must contain an estimate of market value. Market value is defined as the most probable price which a property should bring in a competitive and open market under all condition's requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition are the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- Buyer and seller of property are typically motivated.
- Both parties are well informed or well advised, acting in what they consider their best interest.
- A reasonable time is allowed for exposure in the open market.
- Payment is made in terms of cash in US dollars or in terms of comparable financial arrangements.
- The price represents the normal consideration for the subject property sold unaffected by special financing or sales concessions granted by anyone associated with the sale.

A minimum of 3 closed comparable must be reported in the sales comparison approach. Additional comparable sales may be reported to support the opinion of market value provided by the appraiser. The subject property can be used as a fourth comparable sale or as supporting data if it was previously closed. Contract offerings and current listings can be used as supporting data, if appropriate.

Comparable sales utilized in the market approach should:

- Be within one mile of the subject property.
- Have been closed within the last 6 months.
- Indicate properties that are similar to the subject property with respect to age, size, features, amenities, etc.
- Result in an overall net adjustment not exceeding 15% of the sales price of that comparable and a gross adjustment not exceeding 25% of the sales price of that comparable
- Reflect adjustments for individual line items not exceeding 10%
- Have a sales price that is within the general range of value as the subject.
- Have at least 3 of the comparable should be recently closed sales.

In instances where comparable conforming to the criteria stated above cannot be used, the appraiser must clearly justify reasons for alternate comparable.

COST APPROACH

When completed, the cost approach must clearly segregate value attributed to land, outbuildings, etc. If the ratio of [land value](#) to total value exceeds 50%, an explanation from the appraiser may be required to demonstrate conformance with neighboring properties. See also [Land Value](#). Appraisals that rely solely on the cost approach as an indicator of market value are not acceptable.

INCOME APPROACH

When the income approach to value is used, the appraisal report must include the supporting comparable rental and sales data and the calculations used to determine the gross rent multiplier. Appraisals that rely solely on the income approach as an indicator of market value are not acceptable.

VALUATION ANALYSIS AND FINAL RECONCILIATION

In the final reconciliation, appraisers must reconcile the reasonableness and reliability of each applicable approach to value along with validity of the indicated values. The appraiser must select and report the approaches that were given the most weight. An averaging technique cannot be used.

APPRAISAL REVIEW PROCESS

The Appraisal Review Process requires a secondary appraisal product to support the appraisal value for the transaction. Acceptable review products include:

- Clear Capital Desk Review (must contain a value and comparative sales data to support the valuation result),
- Field Review
- Second Full Appraisal (appraisals must be completed by different, independent appraisers and the lower of the two appraised values used to determine value)

The Appraisal Review product can be waived if the loan is submitted to Collateral Underwriter and receives a FNMA SSR score of 2.5 or lower.

The following transactions require a 2nd full appraisal:

- Loan amounts > \$2,000,000
- HPML purchase transactions subject to flipping. See [HPML section for details](#).

NQM Funding, LLC reserves the right to request additional appraisal products at their discretion based on review of the appraisal and loan file.

APPRAISAL REVIEW TOLERANCE

If two appraisals are required, the lower of the two values or the purchase price must be used.

A 10% tolerance is permitted for all other secondary review products. 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 seller, broker, or NQM Funding, LLC 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.

PROPERTY CONSIDERATIONS

ACCESSORY UNITS

Properties with accessory units, also known as Granny units, mother-in-law suites, etc., are acceptable if all of the following are met:

- Property is typical, readily acceptable, and common in the subject's market area.
- Property must conform to all zoning laws and/or regulations.
- Appraisal contains 2 comparable with similar additional accessory units.
- Accessory unit is substantially smaller than the primary dwelling.
- Legal non-conforming use is acceptable provided its current use does not adversely affect value and marketability.
- Any rental income received from the accessory unit may not be used for qualifying.
- Existence of the unit must not jeopardize any future hazard insurance claim that may need to be filed for the property.
 - * Note if all of the above are not met appraisal must give the accessory unit zero value.
- For properties located in California, if zoning (current or grandfathered) permits an accessory unit, the rental income may be included, subject to the following:
 - Appraisal reflects the accessory unit is legal and the appraiser report includes at least one comp with an accessory unit.
 - Refinance – the market rent for the accessory unit should be documented on FNMA Form 1007 and the file must include a copy of the current lease with two months proof of current receipt.
 - Purchase – the market rent for the accessory unit should be documented on FNMA Form 1007.

DAMPNESS

If the appraisal report notes evidence of dampness, the appraiser must clearly define the effect on value and marketability of the subject property, as well as comment regarding the probable cause of the dampness problem. Generally, a structural engineer's report is required prior to making a loan decision. The cause of the dampness must be corrected prior to closing should the dampness problem indicate a structural deficiency and/or significant negative impact on value or marketability.

DECLINING MARKETS

Appraiser must identify if property is located in a declining market.

- A 5% Max LTV reduction applies to properties in declining markets.

DEED RESTRICTIONS

Deed restrictions impact the future transferability of a property. The following deed restrictions are allowed:

Age Restricted Communities

Deed restrictions must be reviewed to ensure all of the following requirements are met:

- Appraisal supports property is common and typical for the market area.
- Deed restriction must not impair or restrict the first mortgage holder's legal rights in the event of a default (or cure), foreclosure, or any other default measure.

- Declarations must not contain any provisions that would require the first mortgage holder to send a notice of default or foreclosure to any third party.
- Deed restriction must not require the lender to provide notification to the governing authority of any delinquency or default.

Limitations on Ability to Sell/Right of First Refusal

Any right of first refusal in the condo project documents will not adversely impact the rights of a mortgagee or its assignee to:

- Foreclose or take title to a condo unit pursuant to the remedies in the mortgage,
- Accept a Deed or Assignment in lieu of Foreclosure in the event of Default by a mortgagor, or
- Sell or lease a unit acquired by the mortgagee or its assignee.

DEFERRED MAINTENANCE

Property must be in average or better condition. Properties in C5 or C6 condition are not acceptable. Deferred maintenance is allowed provided the neglected item is not structural in nature (as noted by the appraiser). Deferred items may be left “as is” if the aggregate cost to cure the deficiency does not exceed \$2,000 or impact the safety or habitability of the property.

For additional deferred maintenance guidance for Condominiums, refer to [Review Requirements for Condominiums](#) and the [Condominiums Significant Deferred Maintenance and Unsafe Conditions](#) sections.

ELECTRICAL SYSTEMS

An electrical certification from a licensed electrician is required if the appraisal notes a fair or poor rating concerning the adequacy or condition of the system. Any electrical inadequacies must be corrected prior to closing.

ENVIRONMENTAL HAZARDS

The appraisal report should note the existence of known environmental hazards and its effect on value and marketability of the subject property. Environmental hazards may include but are not limited to:

- Evidence of radon above EPA safety levels which is left untreated.
- Properties built on or near toxic waste dumps, cleanup sites, etc.
- Presence of urea formaldehyde foam insulation (UFFI)

A property inspection completed by a licensed inspector is required in order to make final determination of the acceptability of the property. The mortgagor’s acknowledgment of condition is required.

ESCROWS FOR WORK COMPLETION

Generally, escrow holdbacks are not allowed but may be considered on a case-by-case basis per Underwriter discretion. Exceptions are not permitted on DSCR loans. Lock must cover the escrow period.

FLOOD ZONE

The appraisal should indicate if the property is located in a flood zone. Refer to [Flood Insurance](#) for additional information on flood certifications and flood insurance.

FOUNDATION SETTLEMENT

If the appraisal report notes evidence of excessive settlement, the appraiser must clearly define the effect on value and marketability of the subject property. Settlement problems which denote structural deficiencies and/or significant negative impact on value and marketability must be corrected prior to closing. Generally, a structural engineer's report is required prior to making a loan decision.

Properties with evidence of sinkhole activity are ineligible for financing.

HEATING SYSTEMS

A central heat source with ductwork or baseboard in all rooms is required on all properties. If subject does not have central heat, the appraiser must provide similar comparable properties and an addendum indicating:

- the heat source is typical for the area.
- the heat source is permanently attached.
- the heat source is adequate for the dwelling.
- the heat source is externally vented.

LAND VALUE AND ACREAGE

Acreage and land value must be typical and common for the subject's market. Maximum acreage permitted is 20 acres. Investment property transactions are limited to 5 acres. Special consideration should be taken for properties with land values that exceed 50% of the total property value to ensure the value is justified and the property has marketability. The appraisal report must provide data which indicates like-size properties with similar land values are typical and common in the subject's market area. See also [Rural Properties](#).

LEASEHOLD APPRAISAL REQUIREMENTS

A mortgage that is secured by a leasehold estate or is subject to the payment of "ground rent" gives the borrower the right to use and occupy the real property under the provisions of a lease agreement or ground lease, for a stipulated period of time, as long as the conditions of the lease are met.

When the lease holder is a community land trust, there may be significant restrictions on both the purchase and resale of the property. See also [Community Land Trust Appraisal Requirements](#).

APPRAISAL REQUIREMENTS FOR LEASEHOLD INTERESTS

The appraisal requirements for leasehold interest properties are as follows:

- Appraisers must develop a thorough, clear, and detailed narrative that identifies the terms, restrictions, and conditions regarding lease agreements or ground leases and include this information as an addendum to the appraisal report.

- Appraisers must discuss what effect, if any, the terms, restrictions, and conditions of the lease agreement or ground lease have on the value and marketability of the subject property.

COMPARABLE REQUIREMENTS FOR LEASEHOLD INTERESTS

When there are a sufficient number of closed comparable property sales with similar leasehold interests available, the appraiser must use the property sales in the analysis of market value of the leasehold estate for the subject property.

However, if not enough comparable sales with the same lease terms and restrictions are available, appraisers may use sales of similar properties with different lease terms or, if necessary, sales of similar properties that were sold as fee simple estates. The appraiser must explain why the use of these sales is appropriate and must make appropriate adjustments in the Sales Comparison Approach adjustment grid to reflect the market reaction to the different lease terms or property rights appraised.

COMMUNITY LAND TRUST APPRAISAL REQUIREMENTS

APPRAISER QUALIFICATION FOR PROPERTIES IN A COMMUNITY LAND TRUST

The appraiser must be knowledgeable and experienced in the appraisal techniques, namely the direct capitalization and the market derivation of capitalization rates that are necessary to appraise a property subject to a leasehold estate held by a community land trust. Policies and procedures should be established to ensure that qualified individuals are being selected in accordance with the Appraiser Independence Requirements.

APPRAISAL REQUIREMENTS FOR PROPERTIES IN A COMMUNITY LAND TRUST

The appraisal requirements for community land trust properties are as follows:

- The appraiser must analyze the property subject to the ground lease when a leasehold interest is held by a community land trust. Because the community land trust typically subsidizes the sales price to the borrower, that price may be significantly less than the market value of the leasehold interest in the property.
- The appraised value of the leasehold interest in the property must be well supported and correctly developed by the appraiser because the resale restrictions, as well as other restrictions that may be included in the ground lease, can also affect the value of the property.
- The lender and the borrower must execute the Community Land Trust Ground Lease Rider (FNMA Form 2100) to remove such restrictions from the community land trust's ground lease. The land records for the subject property must include adoption of the terms and conditions that are incorporated in that ground lease rider. The appraiser must develop the opinion of value for the leasehold interest under the hypothetical condition that the property rights being appraised are the leasehold interest without the resale and other restrictions that the ground lease rider removes when a property is disposed of through foreclosure.
- The appraiser must use a three-step process to develop an opinion of value (Note: When this appraisal technique is used, there is no need to document the actual land value of the security property).
 - o The appraiser must determine:
 - Step 1: the fee simple value of the property by using the sales comparison analysis approach to value,

- Step 2: the applicable capitalization rate and convert the income from the ground lease into a leased fee value by using the market-derived capitalization rate, and
- Step 3: the leasehold value by reducing the fee simple value by the lease fee value.
- o On the actual appraisal report form, the appraiser must:
 - indicate “leasehold” as the property rights appraised,
 - provide the applicable ground rent paid to the community land trust,
 - show the estimated fee simple value for the property in the Sales Comparison Approach adjustment grid,
 - report the “leasehold value” as the indicated value conclusion, and
 - check the box “as is” and include in the addendum the development of the capitalization rate and an expanded discussion of the comparable sales used and considered.

COMPARABLE REQUIREMENTS FOR DETERMINING FEE SIMPLE VALUE

In determining the fee simple value of the subject property, the appraiser must use comparable sales of similar properties that are owned as fee simple estates. If this is not possible, the appraiser may use sales of properties that are subject to other types of leasehold estates as long as he or she makes appropriate adjustments, based on the terms of their leases, to reflect a fee simple interest.

When the community or neighborhood has sales activity for other leasehold estates held by a community land trust, the appraiser must discuss them in the appraisal report, but must not use them as comparable sales because, in all likelihood, the sales prices will have been limited by restrictions in the ground lease. Therefore, these sales transactions would not be comparable to the hypothetical condition that the property rights being appraised are the leasehold interest without the resale and other restrictions on which the appraisal of the subject property must be based.

DETERMINING THE CAPITALIZATION RATE

When the community has an active real estate market that includes sales of properties owned as fee simple estates and sales of properties subject to leasehold estates other than those held by community land trusts, the appraiser can use the most direct method for determining the capitalization rate, extracting it from the market activity. To extract the capitalization rate, the appraiser must divide the annual ground rent for the properties subject to leasehold estates by the difference in the sales prices for the comparable sales of properties owned as fee simple estates and the comparable sales of properties subject to leasehold estates.

If there are no available comparable sales of properties subject to leasehold estates other than those held by a community land trust, the appraiser must develop a capitalization rate by comparing alternative low-risk investment rates, such as the rates for long-term bonds, and selecting a rate that best reflects a “riskless” (safe) rate.

DETERMINING THE LEASEHOLD VALUE

To determine the leasehold value of the subject property, the appraiser must first convert the annual income from the community land trust’s ground lease into a leased fee value by

dividing the income by the market-derived capitalization rate. The appraiser must then reduce the estimated fee simple value of the subject property by this leased fee value to arrive at his or her opinion of the leasehold value of the subject property. For example, assume that the annual ground rent from the community land trust's ground lease is \$300, the market-derived capitalization rate is 5.75%, and the estimated fee simple value of the subject property is \$100,000:

- \$300 annual rent/5.75% capitalization rate = \$5,217.39 (rounded to \$5,200)
- \$100,000 fee simple value – \$5,200 leased fee value = \$94,800 (leasehold value).

ADDENDUM TO THE APPRAISAL REPORT

Because appraisal report forms do not include space to provide all of the details required for appraising a property subject to a leasehold held by a community land trust, the appraiser must attach an addendum to the appraisal report to provide any information that cannot otherwise be presented on the appraisal report form. As previously mentioned, the appraiser must check the box “as is” and include in the addendum the development of the capitalization rate and an expanded discussion of the comparable sales used and considered.

The addendum must also include the following statement: “This appraisal is made on the basis of the hypothetical condition that the property rights being appraised are the leasehold interest without resale and other restrictions that are removed by the Community Land Trust Ground Lease Rider.”

MIXED-USE PROPERTIES 0 / 0

Properties that have a business use in addition to their residential use are allowed (i.e., property with space set aside for a day care facility, a beauty or barber shop, or a doctor's office). The following criteria must be met:

- The property must be a 1-unit dwelling that the borrower occupies as a primary residence.
- The borrower must be both the owner and the operator of the business.
- The property must be primarily residential in nature.
- The dwelling may not be modified in a manner that has an adverse impact on its marketability as a residential property.
- In addition, the appraisal must contain the following:
 - Provide a detailed description of the mixed-use characteristics of the subject property.
 - Indicate that the mixed use of the property is a legal, permissible use of the property under the local zoning requirements.
 - Report any adverse impact on marketability market resistance to the commercial use of the property; and
 - Report the market value of the property based on the residential characteristics, rather than of the business use or any special business-use modifications that were made.

MIXED-USE PROPERTIES DSCR N/ 0 / 0 2-8 UNITS

Mixed use DSCR N/O/O 2-8-unit properties are permitted. See [Mixed Use DSCR guides](#) for full details.

MODULAR HOMES

Modular, prefabricated, panelized, or sectional housing homes are eligible for financing at a maximum LTV of 90%. Modular homes must meet all of the following requirements:

- Must assume the characteristics of site-built housing; and
- Must be legally classified as real property; and
- Must conform to all local building codes in the jurisdiction in which they are permanently located.

MULTIPLE DWELLINGS ON ONE LOT

Properties with 2 or more detached single-family homes on a single lot are generally ineligible for financing. Single-family properties containing additional residential dwellings (guesthouse, carriage house, etc.) must comply with local zoning regulations. They must be typical and common within the subject's neighborhood. Typically, the additional dwelling is smaller than the main dwelling and will not be rented. The subject property should be appraised as a single-family residence. Any value for additional dwellings should be supported by comparable sales. See also [Accessory Units](#).

MULTIPLE PARCELS

When a property consists of more than one parcel of real estate, the following requirements must be met:

- Each parcel must be conveyed in its entirety.
- Parcels must be adjoined to the other unless they comply with the following exception. Parcels that otherwise would be adjoined, but are divided by a road, are acceptable if the parcel without a residence is a non-buildable lot (for example, waterfront properties where the parcel without the residence provides access to the water). Evidence that the lot is non-buildable must be included in the loan file.
- Each parcel must have the same basic zoning (for example, residential, agricultural).
- The entire property may contain only one dwelling unit. Limited additional nonresidential improvements, such as a garage, are acceptable. For example, the adjoining parcel may not have an additional dwelling unit. An improvement that has been built across lot lines is acceptable. For example, a home built across both parcels where the lot line runs under the home is acceptable.
- The mortgage must be a valid first lien that covers each parcel.

NEW CONSTRUCTION

The following are required for all new construction properties:

- Appraisal Update and/or Completion Report (FNMA Form 1004D) with complete interior and exterior photos reflecting completion, if applicable. Proposed improvements are not allowed.
- Property taxes are calculated at 1.5% of the sales price for qualification. 1.25% should be used for properties located in CA.

PEST INFESTATION

If the appraisal report or sales contract notes evidence of termites or other insect infestation, a pest inspection report certifying treatment of the infestation prior to closing is required. Any significant structural damage due to pest infestation must be corrected prior to closing.

PLUMBING

A plumbing certification from a licensed plumber is required whenever the appraisal states a fair or poor rating concerning the adequacy or condition of the system. Any inadequacies must be corrected prior to closing.

PRIVATE ROADS

Properties on private roads are acceptable subject to the following:

- The title company must insure access to the subject property from a public street; and
- A legally enforceable agreement or covenant for maintenance of the street is required.
 - The agreement should include provisions for the responsibility for payment of repairs, including each party's representative share, default remedies in the event a party to the agreement or covenant fails to comply with his or her obligations, and the effective term of the agreement which in most cases should be perpetual and binding on any future owners.
 - If the property is located within a state that has statutory provisions that define the responsibilities of property owners for the maintenance and repair of a private street, no separate agreement or covenant is required. Any maintenance costs are to be included in the borrower's housing payment (PITIA).

PUD (PLANNED UNIT DEVELOPMENT)

A Planned Unit Development (PUD) is a project or subdivision that consists of common property and improvements that are owned and maintained by an HOA for the benefit and use of the individual PUD units. In order for a project to qualify as a PUD, all of the following requirements must be met:

- Each unit owner's membership in the owners' association must be automatic and non-severable.
- The payment of assessments related to the unit must be mandatory.
- Common property and improvements must be owned and maintained by an HOA for the benefit and use of the unit owners.
- The subject unit must not be part of a condo or co-op project.

Zoning is not a basis for classifying a project or subdivision as a PUD. The PUD project must be analyzed to ensure that an individual unit in the project will be acceptable security for the mortgage.

REPAIRS

The appraisal must identify all items that require repair. It should also include and describe physical deficiencies that could affect a property's soundness, structural integrity, livability, or improvements that are incomplete. Any immediate or necessary repairs must be completed and re-inspected by the appraiser prior to closing. See also [Deferred Maintenance](#).

RURAL PROPERTIES

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.
- Comparable 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 comparable have lot sizes greater than 10 acres.
- Subject property and or comparable have outbuilding or large storage sheds.

Rural properties must comply with all of the following criteria:

- Primary residence and residential use only
- Not permitted for the Super Jumbo Program
- Maximum LTV allowed is 80%
- Maximum acreage allowed is 20, which includes road frontage and subject property.
- Property must not be agricultural or provide a 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, tax abatements 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.

SEPTIC SYSTEM/ SEWAGE DISPOSAL SYSTEM

Sewage disposal systems may require certification if the appraiser or purchase contract indicates the necessity. The report should be provided by a city, county, state (or governing body) official or qualified entity stating:

- Sewage disposal system complies with applicable local and/or state health standards, is in proper working order, and can be expected to function satisfactorily; or
- Local and/or state health standards do not apply for the sewage disposal system; however, it is found to be in proper working order and adequate for the subject property.

For systems one-year-old or less, the certification may be no more than one-year-old on the date of closing. For systems more than one-year old, the certification should be no more than 120 days old on the date of closing.

SOLAR PANELS

Properties with solar panels are eligible for financing. If the property owner is the owner of the solar panels, standard eligibility requirements apply (for example, appraisal, insurance, and title). If the solar panels are leased from or owned by a third party under a power purchase agreement or other similar arrangement, the following requirements apply (whether to the original agreement or as subsequently amended):

- The solar panels may not be included in the appraised value of the property.
- The property must maintain access to an alternate source of electric power that meets community standards.
- The monthly lease payment must be included in the debt-to-income (DTI) ratio calculation unless the lease is structured to:
 - provide delivery of a specific amount of energy at a fixed payment during a given period, and

- o have a production guarantee that compensates the borrower on a prorated basis in the event the solar panels fail to meet the energy output required for in the lease for that period.
- Payments under power purchase agreements where the payment is calculated solely based on the energy produced may be excluded from the DTI ratio.
- The lease or power purchase agreement must indicate that:
 - o any damage that occurs as a result of installation, malfunction, manufacturing defect, or the removal of the solar panels is the responsibility of the owner of the equipment and the owner must be obligated to repair the damage and return the improvements to their original or prior condition (for example, sound and watertight conditions that are architecturally consistent with the home).
 - o the owner of the solar panels agrees not to be named loss payee (or named insured) on the property owner's property insurance policy covering the residential structure on which the panels are attached. As an alternative to this requirement, the lender may verify that the owner of the solar panels is not a named loss payee (or named insured) on the property owner's property insurance policy; and
 - o in the event of foreclosure, the lender or assignee has the discretion to:
 - terminate the agreement and require third-party owner to remove the equipment.
 - become, without payment of any transfer or similar fee, the beneficiary of the borrower's lease/agreement with the third party; or
 - enter into a new lease/agreement with the third party, under terms no less favorable than the prior owner.

UNCONVENTIONAL FLOOR PLANS

Properties with unusual floor plans or functional obsolescence are allowed if the appraisal demonstrates acceptability in the marketplace and includes appropriate adjustments. A floor plan sketch is required for all appraisals.

WATER SUPPLY

Water certification must be obtained if required by the appraiser or purchase contract. The report should be provided by a city, county, state (or governing body) official or a qualified entity stating:

- The water supply system is in proper working order and pumping an adequate supply of water for the subject property; and
- The water supply is potable and complies with local and/or state health authority standards (in the absence of a local health authority, a reputable chemical testing agency must certify that the water is fit for human consumption). The water certification(s) for existing properties can be no more than 120 days old on the date of closing. If new construction, the report may be one-year old as of the date of closing.

ZONING AND LAND-USE REGULATIONS

Property improvements must constitute a legally permissible use of the land based on the zoning ordinance. If the improvements represent a legal, non-conforming use of land, a letter from the local building authority or appraiser must be obtained to certify the subject property can be rebuilt "as is" in the event of partial or total destruction.

The appraiser must compare the existing and potential use of the subject property to the zoning regulations. In addition, the appraiser should note any adverse effect that a non-conforming use has on the value and marketability of the subject property.

Special consideration must be given to properties that are subject to other types of land use regulations, such as coastal tideland or wetland laws, as setback lines or other provisions may prevent reconstruction or maintenance of the property improvements in the event of damage or destruction. The intent of some land-use regulations is to remove existing land uses and to stop land development (including the maintenance, or new construction, or seawalls) within specific setback lines. Except as stated above, properties with land-use restrictions which prohibit the reconstruction to maintenance the dwelling are ineligible.

CONDOMINIUMS

NON-WARRANTABLE CONDO REQUIREMENTS

A condominium project is one in which individual owners hold title to units in the project along with an undivided interest in the real estate that is designated as the common area for the project. The units in the project must be owned in fee simple and the unit owners must have the sole ownership interest in and rights to the use of, the project's facilities, common elements, and limited common elements.

To qualify as an acceptable condominium unit, the condominium project must be common for the area and demonstrate good marketability.

- All Loan secured by condominium projects require a completed Homeowners Association (HOA) questionnaire.
- See the current Loan/LTV matrix for maximum LTV/CLTVs and loan amounts. Note that if the matrix indicates the project must be warrantable, see the Warrantable Condo Requirements section.
- 400 minimum square footage.
- NQM Funding, LLC's project exposure maximum shall be \$5,000,000 or 20% of the total units in the project, whichever is lower.
- Projects consisting entirely of detached (site) units will not require a project review and are eligible for single-family dwelling LTV/CLTV.
- Two- to four-unit condominium projects will not require a project review provided the following are met:
 - The project is not a condo hotel, houseboat, or timeshare or segmented-ownership project.
 - The [priority of common expense assessments](#) applies.
 - The [standard condominium project insurance requirements](#) apply.
- Project has been created and exists in full compliance with applicable local jurisdiction, State, and all other applicable laws and regulations.
- Commercial space allowed up to 50% of project.
- No more than 20% of the total units in the project may be 60 days or more past due on the condominium/HOA fees.

- Investor concentration allowed up to 60%. A higher percentage may be considered when the subject transaction is an investment property when a history of a high percentage of rental units in the project can be demonstrated.
- The project developer may be in control of the condominium association provided the Master Agreement allows for the homeowners to take control upon either a predetermined percentage of unit sales or within a defined time frame.
- Single entity ownership allowed up to 20% of the project; with the exception of Condotel Projects where the Developer of Condotel may own a great percentage of the units for rental income purposes.
- Subject Units on areas such as golf courses, with pool clubs, or other amenities that are subject to a mandatory membership fee are acceptable. The fees must be included in the borrower's debt to income ratio.
- Any Structural or Mechanical Inspections completed within the past three years must be provided.
- Projects must be reviewed for significant deferred maintenance and/or unsafe conditions.
- Projects involved in litigation are acceptable provided the lawsuit(s) are not structural in nature which impact the subject unit and do not affect the marketability of the project units and potential damages do not exceed 25% of HOA reserves or documentation from the insurance carrier or attorney representing the insurance carrier that the insurance carrier has agreed to conduct defense and the HOA insurance policy is sufficient to cover the litigation expense.
- Must meet all applicable Project Insurance requirements.
- Seller must confirm that the project documents do not give a unit owner or any other party priority over the rights of the first mortgagee.
- Must not have "ineligible" characteristics, as defined below.

WARRANTABLE CONDO REQUIREMENTS

Certain programs and/or LTVs require that the condo project be FNMA warrantable to be eligible. When a program indicates the condo must be warrantable, full [FNMA condo guidelines](#) must be followed to ensure warrantability.

- Reserves
 - Budget must demonstrate a minimum 10% reserve requirement. No exceptions to this requirement are permitted and reserve studies are no longer an acceptable alternative means to demonstrate sufficient reserves.
- Required Documents
 - NQM Funding, LLC Condominium Project Questionnaire
 - Current annual budget
 - Balance Sheet dated within the past 90 days.
 - Master Insurance Policy including property, fidelity/crime, liability and wind, along with HO-6 policy if master is not walls in.
 - Flood insurance with Replacement Cost Valuation if the subject is located in a flood zone.

INELIGIBLE PROJECTS

- Condos listed with a status of “unavailable” in Condo Project Manager (CPM), unless the “unavailable” reason is for a characteristic explicitly deemed acceptable in the condo program guides. This requirement does not apply to Condotel Projects.
- A project subject to the rules and regulations of the US Securities and Exchange Commission.
- Timeshare or condo projects with restrictions on owner’s ability to occupy the unit.
- Houseboat project.
- Manufactured home projects.
- Assisted living facilities or any project where the unit owner’s contract includes a lifetime commitment from the facility to care for the unit owner regardless of future health or housing needs.
- Multi-family units where a single deed conveys ownership of more than one, or all of the units.
 - A common-interest apartment
 - A project in which individuals have an undivided interest in a residential apartment building and land and have the right of exclusive occupancy of a specific apartment unit in the building.
 - The project or building is often owned by several owners as tenants-in-common or by a homeowners’ association.
- Fragmented or segmented ownership
 - Ownership is limited to a specific period on a recurring basis (i.e., timeshare, quarter share).
- Any project where the developer (or its affiliates) owns the Common and/or Limited Elements and leases the elements back to the HOA.
- Any project that has non-conforming zoning (can’t be rebuilt to current density).
- Any project that requires Private Transfer Fees as a part of the transaction, and those fees do not benefit the association.
- Any project in need of Critical Repairs
- Any project currently under an evacuation order due to unsafe conditions
- Any project with unfunded repairs totaling more than \$10,000 per unit

In addition, the following applies to projects of five or more units:

- Projects with significant deferred maintenance are not eligible, such as:
 - Projects with a full or partial evacuation of the building to complete repairs for more than 7 days or an unknown period of time;
 - Projects with deficiencies, defects or substantial damage, or deferred maintenance that
 - Is severe enough to affect the safety, soundness, structural integrity or habitability of the improvements;
 - The improvements need substantial repairs and rehabilitation, including major components; or
 - Impedes the safe and sound functioning of one or more of the building’s major structural or mechanical elements, including but not limited to the foundation, roof, load bearing structures, electrical systems, HVAC or plumbing.
 - Projects that have failed to obtain an acceptable certificate of occupancy or pass local regulatory inspections or re-inspections.
- Special assessments, even if paid in full for the subject unit, must be reviewed to determine acceptability and the following must be documented:
 - The reason for the special assessment;
 - The total amount assessed and repayment terms;

- o Documentation to support no negative impact to the financial stability, viability, condition, and marketability of the project;
 - o The association has sufficient funds for any repairs; and
 - o Borrower must qualify with the outstanding special assessment payment.
 - o Note that if unable to determine no negative impact and/or that the assessments deem the project to be unsafe or unsound, the project is ineligible.
- When any of these issues are identified, for project consideration, a full review (warrantable) must be obtained and all [required documents](#) listed under the Warrantable Condo section of the guide must be obtained and a third party review completed.

PROJECTS IN NEED OF CRITICAL REPAIRS

Loans secured by units in condo project with significant deferred maintenance or in projects that have received a directive from a regulatory authority or inspection agency to make repairs due to unsafe conditions are not eligible.

These projects are ineligible until the required repairs have been made and documented. Acceptable documentation may include a satisfactory engineering or inspection report, certificate of occupancy, or other substantially similar documentation that shows the repairs have been completed in a manner that resolves the building's safety, soundness, structural integrity, or habitability concerns.

Significant deferred maintenance includes deficiencies that meet one or more of the following criteria:

- Full or partial evacuation of the building to complete repairs is required for more than seven days or an unknown period of time;
- The project has deficiencies, defects, substantial damage, or deferred maintenance that:
 - o Is severe enough to affect the safety, soundness, structural integrity, or habitability of the improvements;
 - o The improvements need substantial repairs and rehabilitation, including many major components; or
 - o Impedes the safe and sound functioning of one or more of the building's major structural or mechanical elements, including but not limited to the foundation, roof, load bearing structures, electrical system, HVAC, or plumbing.

Additionally, projects that have failed to obtain an acceptable certificate of occupancy or pass local regulatory inspections or recertifications are not eligible.

These policies do not apply to routine maintenance or repairs that a homeowners' association (HOA) undertakes to maintain or preserve the integrity and condition of its property.

Also, if damage or deferred maintenance is isolated to one or a few units and does not affect the overall safety, soundness, structural integrity, or habitability of the improvements then these project eligibility requirements do not apply. Examples of this scenario include water damage to a unit due to a leaky pipe that is isolated or damage from a small fire impacting the interior of a specific unit. However, if the subject property unit is affected, our standard requirements for property condition apply.

SPECIAL ASSESSMENTS

Any current or planned special assessment, even if paid in full for the subject unit, must be reviewed to determine acceptability.

The loan file must be documented with the following:

- the reason for the special assessment;
- the total amount assessed and repayment terms;
- documentation to support no negative impact to the financial stability, viability, condition, and marketability of the project; and
- borrower qualification with any outstanding special assessment payment.

The financial documents of the HOA must be required for review to confirm the association has the ability to fund any repairs.

If the special assessment is related to safety, soundness, structural integrity, or habitability, all related repairs must be fully completed, or the project is not eligible. Additionally, if the client or appraiser is unable to determine that there is no adverse impact, the project is ineligible.

INSPECTION REPORTS

If a structural and/or mechanical inspection was completed within 3 years of the project review, a copy of the report must be provided. The report cannot indicate any critical repairs are needed, no evacuation orders are in effect, and no regulatory actions are required.

If the inspection report indicates there are unaddressed critical repairs, the project is ineligible until the required repairs have been completed and documented accordingly. A review of the engineer's report or substantially similar document to determine if the repairs completed have resolved the safety, soundness, structural integrity, or habitability concerns of the project is required.

ESTABLISHED PROJECTS

- 90% of the total units in the project must be sold and conveyed to the unit owners.
- 40% of the total units in the project must be owner occupied.
- All phases are complete.
- HOA must be conveyed to the unit owners – no developer or builder-controlled projects allowed.
- All comparable sales may be from within the subject's project if the project is established and consists of 100 or more units. Recent sales of model match units, if available, must be utilized in the appraisal report.

NEW PROJECTS

- 50% of the total units in the project or subject's phase must be sold and conveyed or be under contract for sale to the unit owners AND at least 40% of the units must be owner occupied or second homes.

- Project or subject's legal phase along with other development phases must be complete.
- All common elements in the project or legal phase must be 100% complete.
- Project may be subject to additional phasing.
- HOA should be in control – project under Developer or Builder control will be considered on a case-by-case basis only.

CONDOMINIUM CONVERSIONS

- A condominium conversion is the conversion of an existing building to a condominium project. Project conversions legally created in the past year must meet new condo presale requirements.

SITE CONDOMINIUMS

- Projects consisting of single-family detached dwellings (also known as site condominiums) are acceptable provided the appraisal supports market acceptance of site condominiums in the subject's market area. A Condominium Project Questionnaire is not required.
- Appraisals for site condos are to be documented on FNMA Form 1004. The appraiser should include an adequate description of the project, information about the homeowners' association fees, and note the quality of the project maintenance.
- Appraisals for site condos may be documented on FNMA Form 1073 or 1004. When documented on the 1004, the appraiser should include an adequate description of the project, information about the homeowners' association fees, and note the quality of the project maintenance.
- Standard Condominium insurance requirements apply.

CONDOTELS

- Available with Select Prime Full Doc & Alt Doc, DSCR Program and Foreign National Programs
- Projects that are managed and operated as a hotel or motel, even though the units are individually owned.
- Projects with names that include the words "hotel," "motel," "resort," or "lodge."
- A project that includes registration services which offers rentals of units on a daily, weekly, or monthly basis. Note that the ability to rent units on a shorter-term basis without hotel elements such as having a front desk and/or maid service, does not necessarily render the project a condotel.
- Hotel or motel conversions (or conversions of other similar transient properties.)
- Project has obtained a hotel or resort rating for its hotel, motel, or resort operations through hotel ratings providers including, but not limited to, travel agencies, hotel booking websites, and internet search engines.

CONDOTEL – STATE RESTRICTIONS

- Condotels are restricted in the following states:
- o Reduce LTV by 5% in the state of MS.

CONDOTEL FULL & ALT DOC NOO

FICO	Purch & R/T	Cash-out
700	75	65
680 & FN	70	60

- Max Cash-Out: \$250,000
- Max Loan Amount: \$1,500,000
- Min Reserves: 6 months

**Other Condotel requirements:*

- Minimum of 400 square feet –
- Must have a full kitchen and at least 1 separate bedroom –
- Must be in a resort area or must be affiliated with a national hotel chain.
- Max LTV on cash out is 65%, with max cash in hand of \$250k, if free and clear max 50% LTV.
- Available for Foreign National and NOO only

CONDOTEL DSCR

FICO	Purch & R/T	Cash-out
700	70	65
680 & FN	65	60

- Max Cash-Out: \$250,000
- Max Loan Amount: \$1,500,000
- Min Reserves: 6 months

**Other Condotel requirements:*

- Minimum of 400 square feet –
- Must have a full kitchen and at least 1 separate bedroom –
- DSCR Max 65% FN and 60% Cash out
- Must be in a resort area or must be affiliated with a national hotel chain.
- Max LTV on cash out is 65%, with max cash in hand of \$250k at 65%, or if free and clear max 50% LTV.

DISASTER AREAS POLICY

NQM Funding, LLC is responsible for identifying areas impacted by disasters and taking the appropriate steps to ensure the subject property has not been adversely affected. Examples of disasters include, but are not limited to, hurricanes, earthquakes, floods, landslides, tornadoes, wildfires, volcanic eruptions, civil unrest, and terrorist attacks.

Adverse events that receive a formal disaster declaration issued by local, state or federal departments of emergency management must follow the procedures listed below. A list of all federally declared disaster areas may be found on the FEMA website at <http://www.fema.gov/disasters>.

In addition, when there is knowledge of an adverse event occurring in and around the subject property's geographic region and a formal declaration has not yet been made, additional due diligence is required to determine whether the disaster area guidelines must be followed. Damage to the subject property must meet requirements in [Deferred Maintenance](#).

- [Additional documentation to support ongoing business activity may be requested at the discretion of the underwriter.](#)

PROPERTY APPRAISED PRIOR TO DISASTER INCIDENT

If the appraisal effective date is prior to the disaster incident, the following documentation is required:

- Clear Capital Post Disaster Inspection Report (PDI or equivalent); or
- An exterior inspection completed by licensed third-party professional:
 - Exterior Inspection must certify the condition of the subject property and identify any impact to habitability or marketability.
 - Inspection report must include photographs (the front, street view, and any damage to subject property).
 - Inspection report and evidence of inspector licensing must be retained in loan file.

If the appraisal was complete at the time of the disaster but 'subject to completion' or 'subject to repairs', an Appraisal Update and/or Completion Report (FNMA Form 1004D) is required in addition to the inspections listed above.

PROPERTY APPRAISED AFTER DISASTER INCIDENT

When the appraisal effective date is after the disaster incident, no additional documentation is required.

DISASTER INCIDENT OCCURS AFTER CLOSING, PRIOR TO FUNDING OR PURCHASE

If the disaster incident occurred after closing, the loan is ineligible for purchase or funding until one of the following is received certifying no damage to the subject property:

- Clear Capital Post Disaster Inspection Report (PDI or equivalent); or
- Appraisal Update and/or Completion Report (FNMA Form 1004D)

DISASTER EFFECTIVE TIME PERIOD

Guidelines for disaster areas should be followed for 60 days from the incident period ending date or the date the adverse event occurred, whichever is later.

EMPLOYMENT VERIFICATION

In addition to verifying the property has not been adversely impacted, it must also be established that the employment/earnings have not been negatively impacted on all loans with the exception of DSCR loans when the property is located in a county with

individual assistance and the income documentation in file predates the date of the disaster.

- Wage Earners must have the VVOE completed after the disaster date confirming no impact to wages due to the disaster.

Self-Employed borrowers must provide a Borrower Certification attesting to the fact that their revenue has not been impacted as a result of the disaster.

PROPERTY INSURANCE

HAZARD INSURANCE

MINIMUM HAZARD INSURANCE COVERAGE

Hazard insurance must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. Extended coverage must include, at a minimum, wind, civil commotion (including riots), smoke, hail, and damages caused by aircraft, vehicle, or explosion.

If the property insurance policy excludes or limits coverage of any of the required perils, the borrower must obtain an acceptable stand-alone policy that provides adequate coverage for the limited or excluded peril.

The coverage must provide for claims to be settled on a replacement cost basis. Property insurance policies that provide for claims to be settled on an actual cash value basis are not acceptable.

DETERMINING THE AMOUNT OF REQUIRED HAZARD COVERAGE

Hazard insurance coverage should be in the amount of the lesser of:

- The unpaid principal balance of the mortgage or
- 100% Replacement Cost Coverage as stated on the policy declaration page.

If the above requirements are not met, it will be acceptable to provide coverage equal to at least 100% of the insurable value of improvements, as established by the property insurer through a Replacement Cost Estimator of equivalent.

Note: If the policy does not cover the unpaid principal balance, have guaranteed replacement cost or a replacement cost estimate is not provided, a processor's certification from NQM Funding, LLC verifying the insurer's coverage is equal to 100% of the insurable value of improvements as indicated by the insurance agent or representative. The certification must include the insurance company's complete information, subject property address, confirm the replacement cost amount determined by the insurer, and be signed and dated by the processor.

The following tables describes how to calculate the amount of required hazard insurance coverage when the policy does not explicitly guarantee 100% replacement cost coverage:

DETERMINING HAZARD COVERAGE			
STEP	DESCRIPTION		
1	Compare the insurable value of the improvements as established by the property insurer to the unpaid principal balance of the mortgage loan.		
1A	If the insurable value of the improvements is less than the unpaid principal balance, the insurable value is the amount of coverage required.		
1B	If the unpaid principal balance of the mortgage loan is less than the insurable value of the improvements, go to Step 2.		
2	Calculate 80% of the insurable value of the improvements.		
2A	If the result of this calculation is equal to or less than the unpaid principal balance of the mortgage, the unpaid principal balance is the amount of coverage required.		
2B	If the result of this calculation is greater than the unpaid principal balance of the mortgage, this calculated figure is the amount of coverage required.		
EXAMPLES			
CATEGORY	PROPERTY A	PROPERTY B	PROPERTY C
INSURABLE VALUE	\$90,000	\$100,000	\$100,000
UNPAID BALANCE	\$95,000	\$ 90,000	\$ 75,000
80% INSURABLE VALUE	—	\$ 80,000	\$ 80,000
REQUIRED COVERAGE	\$90,000	\$ 90,000	\$ 80,000
CALCULATION METHOD	Step 1A	Step 2A	Step 2B

DEDUCTIBLE AMOUNT

The maximum allowable deductible for insurance covering a property securing a first mortgage loan is 5% of the face amount of the policy. When a policy provides for a separate wind-loss deductible (either in the policy itself or in a separate endorsement), that deductible must be no greater than 5% of the face amount of the policy.

EVIDENCE OF HAZARD INSURANCE

Policy must be effective for at least 60 days after the date of funding (does not apply to condominium project insurance policies). Evidence of Insurance may be provided in one of the following forms:

- Policy

- Certificate of Insurance (COI)
- Insurance Binder

Evidence of Insurance must provide the following information:

- Names of borrowers reflect the same as the names on the note.
- Property address agrees with the note/security instrument.
- Mailing address is the same as property address.
- Policy Number
- Loan Number
- Name of insurance company
- Insurance Agent information
- Effective and expiration dates of coverage
- Premium Amount
- Coverage amounts and deductible
- Loss payee clause as applicable
- Signed and dated by agent.

OPTIONAL COVERAGE

Hazard insurance policies may include optional coverage(s) which are acceptable but are not required. For example, a “homeowners” or “package” policy is acceptable as long as any part of the coverage that exceeds the required coverage is not obligated for renewal.

RATING REQUIREMENTS

The hazard insurance policy must be written by a carrier that meets at least one of the following requirements:

- Carriers rated by A.M. Best Company; Inc. must have:
 - a “B” or better Financial Strength Rating
- Carriers rated by Demo tech, Inc. must have an “A” or better rating in Demo tech’s Hazard Insurance Financial Stability Ratings
- Carriers rated by Kroll’s Bond Rating Agency must have a “BBB” or better rating in Kroll Bond Rating Agency’s Insurance Financial Strength Rating (IRSR)
- Carriers rated by Standard and Poor’s must have a “BBB” or better Insurer Financial Strength Rating in the Standard and Poor’s Ratings Direct Insurance Service

The following types of property insurance policies are acceptable if they are the only coverage the borrower can obtain:

- policies underwritten by a state’s Fair Access to Insurance Requirements (FAIR) plan; and
- policies obtained through state or territory insurance plans, such as the Hawaii Property Insurance Association (HPIA), Florida’s Citizens Property Insurance Corporation, or other state-mandated windstorm and beach erosion insurance pools.

CONDOMINIUM AND PUD PROJECT INSURANCE REQUIREMENTS

Refer to [Projects In Need of Critical Repairs](#) in the Condominium section of the guide.

CONDO PROJECTS

The master property or flood insurance policy must designate the HOA as the named insured. If the condo's legal documents permit it, the master property or flood insurance policy can specify an authorized representative of the HOA, including trustee, as the named insured.

PUD PROJECTS

The master property or flood insurance policy must designate the HOA as the named insured.

COVERAGE REQUIREMENTS

The insurance policy must at a minimum protect against fire and all other hazards that are normally covered by the standard extended coverage endorsement, and all other perils customarily covered for similar types of projects, including those covered by the standard "all risk" or "special form" endorsement. If the policy does not include an "all risk" or "special form" endorsement, a policy that includes the "broad form" covered causes of loss is acceptable. If the master policy excludes or limits coverage of any of the required perils, the HOA must obtain an acceptable stand-alone policy which provides adequate coverage for the limited or excluded peril.

The policy must be provided for claims to be settled on a replacement cost basis. Policies written on an actual cash value basis are not acceptable.

SPECIAL COVERAGE REQUIREMENTS

The following special coverage requirements apply to both condos and PUD Master Insurance Policies.

- **Inflation Guard Coverage** – the coverage is not required if it's not obtainable in the insurance market available to the association. In addition, inflation guard coverage is not required when the policy has guaranteed replacement cost or extended replacement cost.
- **Building Ordinance or Law Coverage** – the coverage may be included in the property coverage form or obtained as an endorsement to the property insurance policy. The coverage is not required if it is not obtainable in the insurance market to the association. When required, the coverage must include:
 - Coverage A: loss to the undamaged portion of a building,
 - Coverage B: demolition costs, and
 - Coverage C: increased cost of construction.
- **Boiler and Machinery/Equipment Breakdown Coverage** – this coverage is required if the project development has central heating or cooling. The coverage may be included in the property coverage form, obtained as an endorsement to the master policy, or the HOA may purchase a stand-alone policy.
 - Coverage amount must equal the lesser of \$2m or the replacement cost value of the building(s) housing the boiler or machinery.

REQUIRED COVERAGE AMOUNT

Insurance must cover 100% of the insurable replacement cost of the project improvements, including the individual units in the project. An insurance policy that includes any of the following coverage, either in the policy language or in a specific endorsement to the policy, is acceptable:

- Guaranteed Replacement Cost – the insurer agrees to replace the insurable property regardless of the cost,
- Extended Replacement Cost – the insurer agrees to pay more than the property’s insurable replacement cost, or
- Replacement Cost – the insurer agrees to pay up to 100% of the property’s insurable replacement cost.

Properties with coinsurance provisions provide additional risk and must be evaluated to ensure sufficient coverage exists. If the policy has a coinsurance clause, inclusion of an Agreed Amount Endorsement or selection of the Agreed Value Option is considered acceptable evidence that the 100% replacement cost requirement has been met. If an Agreed Amount/Agreed Value provision is used, the Agreed Amount must be no less than the estimated replacement cost value.

POLICIES COVERING MULTIPLE PROJECTS

Acceptable policies must provide coverage for either an individual project or multiple affiliated projects.

Except as described below, unaffiliated projects may not share a master property insurance policy. Each project must maintain its own policy that meets the defined requirements.

If a property insurance policy that covers multiple unaffiliated projects provides a dedicated coverage amount for each individual covered project, the policy structure may provide equivalent coverage to the defined coverage amounts. The coverage amount dedicated to the subject project must be sufficient to cover the full replacement cost value of the project improvements including the common elements and residential structures. The coverage of each insured project cannot be affected by any actions or omissions of unaffiliated projects covered by the same policy. Additionally, all other master property insurance requirements for project developments must be met.

DEDUCTIBLE AMOUNT

For policies covering the common elements in a PUD project and for policies covering condo projects, the maximum deductible amount must be no greater than 5% of the face amount of the policy.

For losses related to individual PUD units that are covered by the blanket policy for the project, the maximum deductible amount related to the individual unit should be no greater than 5% of the replacement cost of the unit. If, however, the policy provides for a wind-loss deductible (either in the policy itself or in a separate endorsement), that deductible must be no greater than 5% of the face amount of the policy.

For blanket insurance policies that cover both the individual units and the common elements, the maximum deductible amount related to the individual unit should be no greater than 5% of the replacement cost of the unit.

GENERAL LIABILITY COVERAGE

Project liability insurance requirements are as follows:

- The homeowners' association must have a commercial general liability insurance policy for condo projects or Type F PUD projects, including all common areas and elements, public ways, and any other areas that are under its supervision.
- The insurance should cover commercial spaces that are owned by the homeowners' association, even if they are leased to others. The commercial general liability insurance policy should provide coverage for bodily injury and property damage that result from the operation, maintenance, or use of the project's common areas and elements.
- The amount of liability coverage should be at least \$1,000,000 for bodily injury and property damage for any single occurrence.

FIDELITY BOND COVERAGE

Fidelity bond coverage is required for condominium projects over 20 units (or per state requirements). The insurance coverage must be at least equal to the greater of 3 months HOA dues or minimum required by state law. Coverage is not required when the calculated amount is \$5,000 or less.

FLOOD INSURANCE

Flood insurance is required for any property located within any area designated by the Federal Emergency Management Agency (FEMA) as a Special Flood Hazard Area (SFHA). A SFHA is typically denoted as Flood Zone A or Zone V (coastal areas). Properties in Flood Zone A or V must be located in a community which participates in the FEMA program to be eligible for financing. NQM Funding, LLC aligns with Fannie Mae on Flood Insurance and it is only required when a mortgage loan is secured by a property located in:

- A Special Flood Hazard Area (SFHA), or
- A Coastal Barrier System (CBRS) or Otherwise Protected Area (OPA)

FLOOD CERTIFICATE

Determination whether a subject property is in a flood zone must be established by a Flood Certificate provided by the Federal Emergency Management Agency (FEMA). The appraisal report should also accurately reflect the flood zone.

The flood insurance requirement can be waived if:

- Subject property improvements are not in the area of Special Flood Hazard, even though part of the land is in Flood Zone A or V; or
- The Flood Certificate, Section B4 "Flood Zone" field is marked as "None" and Section B5 "No NFIP Map" is checked (true); and the "No" box in Section D "Determination" is checked validating the property is not in a FEMA flood zone containing the letters A or V; or
- Borrower obtains a letter from FEMA stating that its maps have been amended so that the subject property is no longer in an area of Special Flood Hazard

MINIMUM FLOOD INSURANCE COVERAGE

The minimum amount of flood insurance required for most first mortgages secured by 1-unit properties and individual PUD units is the lower of:

- 100% of the replacement cost of the insurable value of the improvements.

- the maximum insurance available from the National Flood Insurance Program (NFIP), which is currently \$250,000 per dwelling; or
- the unpaid principal balance of the mortgage

ACCEPTABLE FLOOD INSURANCE POLICIES

The flood insurance policy must be one of the following:

- A standard policy issued under NFIP; or
- A policy issued by a private insurer as long as the terms and amount of coverage are at least equal to that provided under a NFIP policy based on a review of the full policy issued by the private insurer.

PROJECT FLOOD INSURANCE REQUIREMENTS

The flood policy for a PUD or condominium project must cover any common element buildings and any other common property located in a SFHA. The amount of flood insurance coverage for a PUD or condo project should be at least equal to the lesser of 100% of the insurable value of the facilities or the maximum coverage available under the appropriate National Flood Insurance Program (NFIP).

DEDUCTIBLE AMOUNT

The maximum allowable deductible is the maximum available from the NFIP, which is currently \$10,000. The maximum allowed deductible for a PUD or condo project is \$25,000.

EVIDENCE OF FLOOD INSURANCE

Flood insurance must be maintained throughout the duration of the loan. If final evidence of flood insurance is not available at closing, the following may be used:

- Completed and executed NFIP application with a copy of the borrower's premium check, the insurance agent's paid receipt, or the final settlement statement reflecting the flood insurance premium paid at closing.
- Completed and executed NFIP General Change Endorsement Form showing the assignment of the current flood insurance policy by the property seller to the borrower.
- Agent-executed NFIP Certification of Proof of Purchase of Flood Insurance

Evidence of Insurance must provide the following information:

- Names of borrowers reflect the same as the note.
- Property address agrees with the note/security instrument.
- Mailing address is the same as property address.
- Policy Number
- Loan Number
- Name of insurance company
- Insurance Agent information
- Effective and expiration dates of coverage
- Premium Amount and deductible
- Coverage amount
- Loss payee clause as applicable

- Signed and dated by agent.

MORTGAGEE / LOSS PAYEE CLAUSE

LOSS PAYEE CLAUSE

- For all loans **except** properties in New York:
NQM Funding, LLC
4800 N Federal Hwy, Bldg E, Suite 200
Boca Raton, FL 33431
ISAOA/ATIMA
- For properties located in New York:
Great Home Mortgage of New York in lieu of true name NQM Funding, LLC
4800 N. Federal Hwy, Bldg E, Suite 200
Boca Raton, FL 33431
ISAOA/ATIMA

MORTGAGEE CLAUSE REQUIREMENTS BY PROPERTY TYPE

- **1-4 Unit Properties**
 - The applicable insurance policy must include (or have attached) a "standard" or "union" mortgagee clause (without contribution) in the form customarily used in the area in which the property is located. A loss payable clause in lieu of a mortgagee clause is not acceptable.
- **Unit in a project development**
 - If a unit owner or shareholder maintains an individual property insurance policy (as indicated by the project's legal documents) or if an individual property insurance policy is required in accordance with Determining if a Master Property Insurance Policy is required ([B7-3-03, Master Property Insurance Requirements for Project Developments](#)) for interior coverage, it must include the standard mortgagee clause as defined above.
 - If an individual flood insurance policy is required in accordance with Requirements for Project Developments ([B7-3-06, Flood Insurance Requirements for All Property Types](#)), it must include the standard mortgagee clause as defined above.

NAMED INSURED FOR PROPERTY AND FLOOD INSURANCE

- **1-4 Unit Properties or Individual Units in a Project Development**
 - The individual property or flood insurance policy last name all persons holding title to the subject property as named insured to ensure the borrower(s) has full rights to the policy and the ability to receive benefits is not impaired.

- **Condo Projects**
 - The master property or flood insurance policy must designate the HOA as the named insured. If the condos legal documents permitted the master property or flood insurance policy can specify an authorized representative of the HOA, including its insured trustee, as the name insured.
- **PUD Projects**
 - The master property or flood insurance policy must designate the HOA as the named insured.

NOTICE OF CANCELLATION FOR PROPERTY INSURANCE

The policy must require the insurer to notify in writing the named insured and mortgagee(s) before it cancels the policy.

TITLE INSURANCE

TITLE POLICY REQUIREMENTS

Loans must be covered by a title insurance policy that has been paid in full and is valid, binding, and remains in full force and effect.

Preliminary title must indicate that the final title policy will be issued after funding. The title insurer must be qualified to do business in the state where the subject property is located. The title insurer and policy must conform to Fannie Mae/Freddie Mac requirements.

BORROWER INFORMATION

All borrower names must be indicated on the title commitment. If the borrower's marital status appears to be different than on 1003, the discrepancy must be addressed. The property seller's name must be cross- referenced to the purchase agreement and valuation chain of title.

COVERAGE AMOUNT

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

INSURED NAME

Title policy must ensure the seller as its name appears in the security instrument. It must also include the language "its successors and assigns as their interest may appear."

AGE OF REPORT

The preliminary title report/title commitment should be dated no later than 90 days prior to closing. Any requirements by title, such as Statements of Information or copies of trust agreements, must be cleared prior to closing.

VESTING

Final title policy vesting should reflect the name(s) of the individual borrower(s). See [Vesting and Ownership](#).

GAP COVERAGE

The preliminary title report/title commitment must be updated after closing in writing to ensure the mortgage is in first lien position and documented through one of the following:

- Final title policy
- Title bring-down search representing the period of time from the original search through the time the mortgage is recorded.
- Gap coverage from the time of the original search until the mortgage is recorded, when the mortgage is not recorded at the time of diligence.

TITLE POLICY FORMS

The final title policy must be written on one of the following forms:

- 2006 American Land Title Association (ALTA) standard form
- ALTA short form
- ALTA form with amendments required by state law in states in which standard ALTA forms of coverage are not used or in which the 2006 ALTA forms have not yet been adopted, provided those amendments are acceptable to Fannie Mae/Freddie Mac.

TITLE POLICY UNDERWRITER

A title insurer must be:

- duly authorized and licensed, as required, to issue title insurance in the state where the property is located; and
- further evaluated in accordance with the lender's procedures for title insurer approval, which may include factors such as
 - an acceptable rating from a rating agency,
 - financial strength of the title insurer,
 - adequate reserves, or
 - record related to satisfactory title claim resolution.

Note: Iowa Title Guaranty is an acceptable title guarantor for properties located in the state of Iowa

TITLE COMMITMENT REVIEW

CHAIN OF TITLE

All files are to contain a 24-month title history from an acceptable source. Transfer date, price, and buyer and seller names on any title transfers that occurred within the previous 24 months should be provided. The vesting history should be reviewed for inconsistencies or any indication of flipping activity.

TITLE EXCEPTIONS

The following items are allowable title exceptions:

- Customary public utility subsurface easements: the location of which are fixed and can be verified. The exercise of rights of easement will not interfere with use and enjoyment of any improvement of the subject property or proposed improvements upon which the appraisal or loan is based.
- Above-surface public utility easements that extend along one or more property lines for distribution purposes, or along the rear property line for drainage, provided they do not extend more than 12 feet from the subject property lines and do not interfere with any of the buildings or improvements, or with the use of the subject property; and public utility restrictions, provided their violation will not result in the forfeiture or reversion of title or a lien of any kind for damages, or have an adverse effect on the fair market value of the subject property.
- Mutual easement agreements that establish joint driveways or party walls constructed on the subject property and on an adjoining property, provided all future owners have unlimited and unrestricted use of them.
- Encroachments on one foot or less on adjoining property by eaves or other overhanging projections or by driveways provided there is at least a 10-foot clearance between the buildings on the subject property and the property line affected by the encroachments.
- Encroachments on the subject property by improvements on adjoining property provided these encroachments extend one foot or less over the property line of the subject property, have a total area of 50 square feet or less, do not touch any buildings, and do not interfere with the use of any improvements on the subject property or the use of the subject property not occupied by improvements.
- Encroachments on adjoining properties by hedges or removable fences.
- Liens for real estate or ad valorem taxes and assessments not yet due and payable.
- Outstanding oil, water, or mineral rights as long as they do not materially alter the contour of the property or impair its value or usefulness for its intended purposes.

SURVEY REQUIREMENTS

Generally, surveys are required on new construction properties, TX A6 loans, and Mixed Use DSCR loans. Specifically, if the title company requires a survey or plat map due to an exception noted on the title policy, a copy must be submitted in the loan file. Surveys must be certified, dated, and signed by the licensed civil engineer or registered surveyor performing the survey. Unimproved land surveys are not acceptable.

Surveys should be reviewed for easements, encroachments, flood zone impacts, and possible boundary violations, taking into account the location of the dwelling on the property.

SERVICING

All loans are to be serviced by a third-party servicer approved by NQM Funding, LLC Mortgage.

Borrowers are required to establish initial and monthly escrow for annual taxes, hazard insurance, flood insurance (if applicable), and HO-6 insurance coverage (if applicable), unless otherwise specified by applicable state law. One twelfth (1/12) of the annual premiums are to be paid with the principal and interest payments.

INVESTOR DSCR PROGRAM

GENERAL PROGRAM INFORMATION

INVESTOR DSCR PROGRAM

The Investor DSCR Program is designed for investment or non-owner-occupied loans that are designated for business purposes only. Follow the standard FLEX guidelines unless detailed out below.

FORMS

For the Investor DSCR Program, the following forms are required:

- Business Purpose & Occupancy Affidavit (all borrowers are required to sign to declare that the property is, or will be, for commercial business or investment purpose only)
- For Retail and Wholesale channel transactions only: The Business Rider to the Mortgage/Deed of Trust must be executed at closing. This requirement does not apply to Correspondent channel transactions.
- Compliance Agreement – DSCR Loans: Effective with loans delivered for purchase on or after 8/15/2023, the NQMF, Compliance Agreement, or Client's equivalent document will be required (*In which the borrower(s) agree(s) to furnish the Lender and its successors and/or assigns with current copies of any and all Lease Agreements within a reasonable time upon request.*).
- 1-4 Family Rider/Assignment of Rents (FNMA Form 3170)
- Guaranty (if applicable)

PREPAYMENT PENALTIES, POINTS, AND FEES

Total points, fees, and APR may not exceed current state and federal high-cost thresholds.

Prepayment penalties are required on Investor DSCR transactions when permitted by law. Buydown options are available to reduce or remove prepayment penalties. See the appropriate NQM Funding, LLC Rate Sheet for details.

Note: States may impose different definitions of points and fees, rate/APR, or prepayment penalties than apply under HOEPA. States may also use different triggers in each category for determining whether a loan will be a "high-cost mortgage" (or equivalent terms) under state law. As a matter of policy, NQM Funding, LLC does not purchase loans defined as high-cost mortgages (or equivalent terms) under Federal or state law, regardless of the basis for the loan's treatment as such.

CASH-OUT REFINANCE

A signed Borrower Certification of Business Purpose disclosing the purpose of the cash-out must be obtained on all cash-out DSCR transactions. Proceeds of the loan are limited to the purchase, improvement, or maintenance the subject property under the Investor DSCR Program. Utilizing proceeds of the loan for personal, family, or household purposes is prohibited.

For properties acquired in the past 12 months, the property may not be unleased as defined by guidelines and DSCR must be .75 or greater (a property just rehabbed is not considered unleased if it is vacant).

CONTINUITY OF OBLIGATION

For DSCR \geq .75 please refer to the standard guide for [Ownership Requirements](#).

No Ratio DSCR Loans - Continuity of ownership is required on all refinance transactions. For No Ratio loans refinance transactions, it occurs when at least one borrower(s) or member of the LLC on the existing mortgage is also a Borrower on the new refinance transaction. When an existing mortgage will be satisfied as a result of the refinance transaction, the following requirements must be met:

- At least one borrower on the refinance mortgage held title for the most recent six (6) month period and the mortgage file contains documentation evidencing the borrower has been making timely mortgage payments, including the payments for any secondary financing, for the most recent six (6) month period.
- At least one borrower on the refinance mortgage inherited or was legally awarded the mortgaged premises by a court in the case of divorce, separation, or dissolution of domestic property.

DELAYED FINANCING

Delayed Financing loans are not subject to cash out limitations. It is also acceptable for a property to be unleased on a DSCR provided the appraiser indicates in the appraisal that the property has been improved or rehabbed post acquisition, to warrant the lack of an existing lease. The explanation and documentation are subject to Underwriter review to determine if an acceptable reason has been provided for lack of a lease.

FLIP TRANSACTIONS

When the subject property is being resold within 180 days of its acquisition by the Seller with more than a 20% increase in value, the transaction is considered a “flip”. To determine the 180-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 including but not limited to the spouse of the Seller or Borrower being the Realtor on the transaction.
- No pattern of previous flipping activity may exist in the last twelve (12) months. Exceptions to ownership transfers may include newly constructed properties, sales by government agencies, properties inherited or acquired through divorce, and sales by the holder of a defaulted loan.
- The property was marketed openly and fairly, through a multiple listing service, auction, for sale by owner offering (documented) or developer marketing.
- No assignments of the contract to another buyer.

- If the property is being purchased for more than 5% above the appraised value, a signed letter of acknowledgement from the Borrower must be obtained.
- If the value of the property being purchased after being rehabbed appraises at more than 20% of the seller's acquisition cost and the 6-months seasoning requirement is not met, one (1) full interior/exterior appraisal and a Clear Capital Desk Review is required.

DSCR BORROWERS

BORROWER ELIGIBILITY

U.S. citizens, Permanent and Non-Permanent Resident Aliens and Foreign Nationals.

- First Time Home Buyer Restrictions do not apply to DSCR.

FRAUD REPORT AND BACKGROUND CHECK

NQM Funding, LLC will obtain a third-party fraud detection report for all borrowers and/or guarantors. 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 the seller.

In addition to the fraud and background check requirements, NQM Funding, LLC will provide evidence via an unsuccessful 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*.

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 transactions.
- Not permitted on loans vesting in the name of an Entity.

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](#)

- o Limited Liability Company (LLC)
- o Limited and General Partnerships
- o Corporations
- o S Corporations

Note: Only individuals can act as borrowers. The other entities listed above relate only to an ownership interest in the subject property.

INELIGIBLE BORROWERS

The following borrowers are not eligible:

- LLCs, partnerships, or corporations (may qualify for vesting only)
- 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
- Refer to the [State Restrictions](#) section in this Guide and Matrices.

DSCR - CREDIT ANALYSIS

APPLICATION

The application must include the subject property (when the transaction is a refinance) along with the borrower's primary residence on the Schedule of Real Estate owned. Other properties owned by the borrower are not required to be disclosed on the application.

CREDIT INQUIRIES

An inquiry explanation is not required on DSCR loans.

CREDIT SCORE REQUIREMENTS

When there are multiple borrowers, the lowest applicable score from the group of borrowers is the representative credit score for qualifying.

TRADELINE REQUIREMENTS – NO RATIO LOANS

Each borrower must have a minimum of two trades within the last 24 months that show a 12 month history, or a combined credit profile between borrower and coborrower with a minimum of three tradelines.

Tradeline activity is not required. Eligible trades cannot have derogatory history in the previous 24 months.

Current housing not reporting on credit can be considered an open trade if supported by bank records such as cancelled checks/debits.

EVIDENCE OF PRIMARY RESIDENCE

All borrowers must presently maintain a primary residence.

- Borrowers who own a primary residence must provide proof of ownership or evidence they are living in a property owned or rented by their spouse.
- Borrowers who rent a primary residence must provide evidence of an active lease in place.
- On a refinance transaction only, rent-free circumstances will be considered provided the borrower has an established address supported by a rent-free letter from the property owner and there is no suggestion of occupancy in the subject property.

Primary residence should be supported by one of the following characteristics:

- Geographically consistent with borrower's place of employment; or
- General appeal and location of primary is superior to subject property.

MORTGAGE AND RENTAL PAYMENT VERIFICATION

Mortgage payments are required on the subject property and primary residence only. If borrower is renting their primary residence, a rental history must be provided. The combined housing payment history may not exceed 1x30 in the past 12 months and be current at closing when the DSCR is .75 or greater. No Ratio loans require a 0x30x12 combined housing history.

Mortgage and rental payments on the subject and primary not reflected on the original credit report must be documented via an institutional third-party (Verification of Rent or Verification of Mortgage - VOR/VOM).

If the borrower 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.

CONSUMER CREDIT COUNSELING SERVICE (CCCS)

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

JUDGMENTS AND TAX LIENS

Court-ordered judgments must be paid in full.

HOUSING EVENTS

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

- Foreclosure
- Deed-in-Lieu
- Short Sale
- Modification
- 0 x120 mortgage history (in the last 24 months)

Housing Events must be seasoned for a minimum of 24 months from loan closing when the DSCR is .75 or greater. Three years housing event seasoning required for No Ratio loans.

Seasoning of a foreclosure is the date the Judge signed the court documents. Seasoning for a 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.

BANKRUPTCY

Bankruptcies discharged or dismissed for a minimum of 36 months from closing date are eligible without Matrix LTV reductions.

- If discharge or dismissal: > 24 but less than 36 months, then:
 - Max 75% LTV for Purchase Transactions
 - Max 70% LTV for Rate/Term and Cash-Out Refinance Transactions
- Multiple bankruptcies are not permitted for No Ratio loans.
- For a Chapter 13 Bankruptcy, the lookback period varies depending on if the bankruptcy was discharged or dismissed:
 - If the BK was discharged, the filing date will be used for the lookback period and the BK must be discharged for a minimum of 12 months.
 - If the BK was dismissed, the dismissal date is used for the lookback period.

DSCR - EMPLOYMENT/ INCOME ANALYSIS

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

DSCR – RATIOS AND QUALIFYING

DEBT-SERVICE COVERAGE RATIO

A Debt-Service Coverage Ratio (DSCR) must be calculated for the subject property. Market rent must be documented with FNMA Form 1007 or Form 1025, as applicable.

The DSCR calculation is as follows:

$$\text{Debt-Service Coverage Ratio} = \text{Gross Income} / \text{Proposed [P]ITIA}^*$$

**For DSCR Interest-Only loans, the DSCR calculation varies between Adjustable-Rate Mortgage Products and Fixed Rate Mortgage Products. See [Products](#) Interest-Only section to use the correct IO and Qualifying Rate calculation.*

REQUIRED DSCR RATIOS

- Loan amounts < \$125K: 1.00
- Cash out refinances on properties acquired in the past 12 months: .75
- See matrix for minimum DSCR
- See matrix for applicable LTV reductions based on DSCR

GROSS RENT DOCUMENTATION REQUIREMENTS

PURCHASE:

- FNMA 1007/1025
- Note that it is acceptable for the property to be vacant at the time of inspection on a purchase.
- The gross rents from the 1007/1025 will be used for qualification.

REFINANCE:

- FNMA 1007/1025, along with one (1) of the following:
 - Executed lease with no less than 1 month 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).
 - For recently rehabbed properties or for properties being rented through a short-term rental service, evidence the property is currently listed for rent. In these situations, it's permissible for the property to be vacant at the time of inspection.
 - Leases are not required on no ratio loans.

The following requirements apply to refinance transactions:

- Monthly lease payments must be consistent with market rents. NQM Funding, LLC will use the lower of the 2 unless there is a documented history of the higher amount for the most recent two months.
- The Property must not and cannot be occupied by a borrower, any member of the borrower's LLC, or any family member.
- On a Delayed Financing transaction, the property may be unleased at the time of the appraisal provided it complies with the [DSCR Delayed Financing guides](#).

DSCR - SHORT TERM RENTAL INCOME

- Short Term Rentals are ineligible for DSCR No Ratio.
- AirDNA may be used for DSCR (1-4 Units ONLY) Purchase and Refinance Transactions and all the following apply:
 - Subject Property must be located in a vacation, entertainment or tourism destination market;
 - Minimum DSCR ≥ 1.15
 - Max LTV: Use the lesser of 75% or the applicable matrix LTV on a purchase and refinance; or max 70% LTV on Foreign Nationals.

- Form 1007 Single Family Comparable Rent Schedule/Form 1025 Small Residential Income Property Appraisal Report prepared by the appraiser reflecting long-term or short-term market rents
- AIRDNA is only available on a refinance when the property has been recently renovated.
- **AirDNA Reporting** – must be used as follows:

AirDNA **Property Earning Potential (Rentalizer Report)** must meet the following requirements:

Rentalizer

- ❖ Forecast period must cover 12 months from Note date.
- ❖ Occupancy rate must be $\geq 50\%$
- ❖ Income calculation (AirDNA annual gross revenue \div 12)
- ❖ Must have five (5) comparison properties.
- ❖ For 2-4 Units, a report must be pulled on each individual unit in AirDNA, and the sum of all combined units' rental income will be used to determine the DSCR ratio.
- ❖ Must be similar in size, room count, amenities, availability, and occupancy.

DSCR - ASSET ANALYSIS

See [Asset Analysis](#) for any asset requirements not specifically addressed in this section.

- Atypical deposits do not need to be sourced on DSCR transactions.
- Gift funds permitted after minimum 10% borrower contribution, however gift cannot be used towards reserves.

DSCR RESERVES REQUIREMENTS

Investor DSCR Reserve Requirements:

- Loan Amount \geq \$125K to \$500,000 = 3 months of PITIA
- Loan Amount $>$ \$500K to \$2.0M = 6 months of PITIA
- Loan Amount $>$ \$2.0M = 12 months of PITIA
- Cash out may be used to satisfy requirement.

DSCR - PROPERTY

See [Property](#) for any property guidelines not specifically addressed in this section. See matrices for limitations for various property types.

RURAL PROPERTIES

- See [Property](#) for any property guidelines not specifically addressed in this section. See matrices for limitations for various property types.

- Rural properties are not permitted with the exception of the following:
 - Rural properties located in a resort area will be considered to a maximum LTV of 65% provided the DSCR is 1 or greater. Examples of acceptable resort areas include beach towns, ski resort areas, golf communities or communities with other major recreational activities.
 - Properties must be accessible by roads that meet state/local minimum standards.
 - Properties must be suitable for year-round occupancy regardless of location.

LAND VALUE AND ACREAGE

Maximum acreage under the Investor DSCR Program is 2 acres. Acreage and land value must be typical and common for the subject's market.

DECLINING MARKETS

An LTV reduction of 5% is required on all loans when the appraiser indicates the property is located in a declining market.

DSCR - INSURANCE

See [Property Insurance](#) and [Title Insurance](#) for complete requirements. In addition, Rent Loss Insurance for the subject property is required and must equal at least 6 months of PITIA. Blanket policies covering the subject property are permitted.

DSCR RESIDENTIAL 5-10 UNITS AND MIXED-USE PROPERTIES 2-8 UNITS

INELIGIBLE STATES

- LTVs must be reduced by 5% in MS.
- Effective 7/1/2023, Foreign Nationals and Non-Permanent Resident Aliens from the Republic of China are ineligible in the State of Florida.

DEBT SERVICE COVERAGE RATIO

- Minimum DSCR ≥ 1.00
- $DSCR = \text{Eligible monthly rents} / \text{PITIA}$
- Loan amounts $\geq \$2,000,000$ require DSCR ≥ 1.00 AND a Debt Yield of 9% or greater
 - Debt Yield defined as Net Operating income/Loan Amount

PROPERTY RENTAL INCOME

- For a leased property the DSCR is based upon the lesser of the estimated market rents or the leases
 - Properties with expired leases that have converted to month to month per the terms of the lease will require bank statements for the lesser of two months or the time period after the lease expired.
- Vacant Unit(s) – Use 75% of the market rents to qualify.
 - Max 1 vacancy on a refinance of a 2-3 Unit property.
 - Max 2 vacancies on a refinance of a 4+ Unit property.
 - On a purchase, it is permissible for all units to be vacant at the time of purchase, provided all units are in lease-ready condition.
- Reduce Qualifying Rents by any management fee reflected on appraisal report.
- 2-8 Units Mixed Use: income from commercial space cannot exceed 49% of the total property income.

ELIGIBLE TENANTS

- Neither the borrower(s) nor the borrower's immediate family shall at any time occupy the residential units.
- Borrower affiliated tenants are defined as any borrower or guarantor, any affiliate of the borrower/guarantor, any holder of a direct or indirect interest in Borrower or such affiliate, any officer, director, executive employer, or manager of the borrowing entity, and any family member (including spouse, siblings, ancestors, and lineal descendants) of any person or entity described previously.
- Borrower must attest that all residential tenants are non-borrower affiliated.
- Commercial units may be occupied by the borrower's business, however in that instance the lesser of market rents or the amount of rent from the lease will be used when calculating the DSCR for the borrower occupied units.

LEASE AND OCCUPANCY REQUIREMENTS

- For Purchase, Rate/Term Refinance and Cash-Out transactions, all units must be either leased or in lease ready condition meaning the properties have been cleaned, no renovations or repairs to the properties are needed and the properties are immediately available to be leased to an eligible tenant.
- For Delayed Financing transactions, refer to the [Delayed Financing](#) section for additional property condition status and appraisal documentation requirements.
- Corporate lease agreements are acceptable with lease terms consistent with typical market standards and will be subject to standard market rent verification.
- Lease agreements that allow single room occupancy or boarder leases are not permitted.
- Third party sale and leaseback agreements are contract for deed transactions will not be permitted.
- All leases must be in US Dollars.

INVESTOR EXPERIENCE

- First time investors not permitted for 5-10 Unit Residential or 2-8 Units Mixed Used,
- Experienced investors only with a history of owning and managing commercial or residential real estate for at least 1 of the last 3 years.

HOUSING HISTORY

- 0x30x24 housing history is required.

RESERVES

- Loan Amt <= \$1.5M: 6 Months PITIA
- Loan Amt > \$1.5M - \$2.0M: 9 months PITIA
- Loan Amt > \$2.0M - \$2.5M: 12 Months PITIA
- Loan Amt > \$2.5M - \$3.0M: 12 Months PITIA
- Cash out may be used to meet reserve requirements 6 months PITIA

APPRAISAL REQUIREMENTS

Residential 5-10 units:

- FHLMC 71A (Loan Amounts <= \$750K); FHLMC 71B (for loan amounts > \$750K); FNMA 1050 or similar short form appraisal report
- Narrative report may be used but is not required.

Mixed Use 2-8 Units:

- FHLMC 71A (Loan Amounts <= \$750K); FHLMC 71B (for loan amounts > \$750K) ONLY FOR CORRESPONDENT; or

- General Purpose Commercial Forms (ex. GP Commercial Summary Form) or Narrative report

The following are required with each report:

- Full Interior Inspection of each unit
- Rent roll
- Income and Expense Statement
- Photos of subject including exterior/interior and street scene
- Aerial photo
- Sketch or floor plan of typical units
- Map
- Plot plan or survey
- Appraiser qualifications

APPRAISAL REVIEW

- Commercial Broker Price Opinion (BPO) required based upon sales approach.

SECOND APPRAISAL

- Required for loan amounts > \$2.0m
 - 2nd appraisal not required when Form 71A Multifamily or Commercial Narrative report is provided.

PROPERTY REQUIREMENTS

- Residential 5-10 units
- Mixed Use 2-8 Units
 - For properties with less than 5 units, at least one must be commercial.
 - 2-3 Units: Max 1 commercial unit
 - 4-5 Units: Max 2 commercial units
 - 6-8 Units: Max 3 commercial units
 - Commercial use limited to retail or office space when the property is located in AL, AR, CT, DE, FA, IA, KY, MN, MS, NE, PA, RI, SD and WV
 - Commercial space not to exceed 49% of the total building area.
 - Commercial space limited to the first floor only.
- Residential or commercial zoning acceptable.
- No fair or poor ratings
- No environmental issues (storage or use of hazardous material, such as dry cleaners/laundromats)
- No health or safety issues as noted by the appraiser such as broken windows, stairs, etc.
- No excessive deferred maintenance that could become a health and safety issue for tenants.
- No structural deferred maintenance such as foundation, plumbing, roof, electrical, etc.

Minimum property requirements:

- Minimum of 400 square feet per unit.
- Must be accessible and available for year-round residential use.
- Contain a full kitchen and bathroom.
- Represent the highest and best use of the property; and

- Not contain any health or safety issues.

PROHIBITED PROPERTY USE

Properties that contain one or more commercial establishment in any of the following businesses are prohibited:

- Adult Activities.
- Any activity not permitted by law, ordinance, or regulation.
- Day care or childcare.
- Gambling activities.
- Manufacturing, distribution, and warehouse.
- Marijuana related activities.
- Medical activities not under the supervisor of a licensed doctor, dentist, chiropractor, psychologist, nurse practitioner, or nutritionist.
- Transient boarding, rooming house or similar.
- Vehicle repair or vehicle related included garages.
- Dry Cleaners or laundromats.
- Other property uses outside of character for the neighborhood in which the property is located, which present higher than ordinary risks for safety, or which are controversial within their community.

INSURANCE

See [Property Insurance](#) and [Title Insurance](#) for complete requirements.

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

FORMS AND TOOLS

The most up-to-date versions of all NQM FUNDING, LLC forms, matrices, and guidelines can be accessed through the NQM FUNDING, LLC Client Portal under *Guidelines and Matrices*.

The following forms can be found under *Documents* via the NQM Funding, LLC (NQMF) Client Portal

- Anti-Steering Disclosure
- Automatic Payment Authorization Form
- Borrower Certificate of Business Purpose
- Borrower Contact Consent
- Business Narrative
- Condo Project Questionnaire
- Exception Request Form
- Gift Letter
- ICD Request Forms
- LLC Borrowing Certificate
- NY Approved Attorney List
- Occupancy Certificate
- Request for Verification of Earnings
- Spousal Consent Form
- Taxpayer Consent Form

Sample Forms are available under *Documents* via in the Client Portal.

- Expense Statement CPA Letter
- Foreign National Mortgage Reference Letter
- Foreign National Bank Reference Letter
- Foreign National CPA Reference Letter for a Free and Clear Property
- Foreign National Credit Reference Letter
- Foreign National Employer Reference Letter

CHANGE HISTORY

Change Date	Description of Change
11 02 2023 Final	<p>MATRICES</p> <ul style="list-style-type: none"> • Select Prime – Full Doc/Alt Doc – Updated as follows: <ul style="list-style-type: none"> ◦ State Restrictions: <ul style="list-style-type: none"> ▪ Removed Vermont from non-licensed states. ▪ Removed No NY OO loans allowed below the FNMA Loan Amount ▪ Added: <ul style="list-style-type: none"> • NY: No 5/6 ARMs on OO loans below the FNMA loan limits. • NY: Subprime permitted on Fixed rate only. See guidelines for full details. NY High Cost not allowed. • Select Prime – Express (DU) Full Doc/Alt Doc – Updated as follows: <ul style="list-style-type: none"> ◦ Non-Occupant Co-Borrower: When using Express (DU) only, ratios for the Occupying Borrower and Non-Occupant Co-Borrower may be blended. • Select Prime – ITIN Full Doc/Alt Doc – Updated as follows: <ul style="list-style-type: none"> ◦ Matrix: 1-Unit - Max Cash-Out LTV with FICO 660 updated to 75%. • Select Prime Super Jumbo (Full Doc/Alt Doc) – Updated as follows: <ul style="list-style-type: none"> ◦ State Restrictions: Removed Vermont from non-licensed states. ◦ 40-Yr I/O: Removed the qualification requirement (Qualify as 30-Yr at <=55% DTI). ◦ Escrow Waivers: Not permitted. • Select Prime 2nd Lien – Updated as follows: <ul style="list-style-type: none"> ◦ State Restrictions: Removed Vermont from non-licensed states. • Investor – DSCR (1-4 Units ONLY) – Updated as follows: <ul style="list-style-type: none"> ◦ State Restrictions: Removed Vermont from non-licensed states. ◦ Short Term Rentals: When using AirDNA "Property Earning Potential (Rentalizer) Report: <ul style="list-style-type: none"> ▪ For 2-4 Units, a report must be pulled on each individual unit in AirDNA, and the sum of all combined units' rental income will be used to determine the DSCR ratio. • Investor – DSCR (5-10 Units Residential or Mixed Use 2-8 Units) – Updated as follows: <ul style="list-style-type: none"> ◦ State Restrictions: Removed Vermont from non-licensed states. ◦ Appraisal Requirements: Clarified options for Residential 5-10 Units; and added options to Mixed Use 2-8 Units for Correspondent Only: <ul style="list-style-type: none"> Residential 5-10 units <ul style="list-style-type: none"> ▪ FHLMC 71A (Loan amts <= \$750K); FHLMC 71B (Loan amts > \$750K) Mixed Use 2-8 Units <ul style="list-style-type: none"> ▪ FHLMC 71A (Loan Amounts <= \$750K); FHLMC 71B (for loan amounts > \$750K) ONLY FOR CORRESPONDENT. • Foreign National (Full Doc & DSCR) – Updated as follows: <ul style="list-style-type: none"> ◦ State Restrictions: Removed Vermont from non-licensed states. ◦ Short Term Rentals: When using AirDNA "Property Earning Potential (Rentalizer) Report: <ul style="list-style-type: none"> ▪ For 2-4 Units, a report must be pulled on each individual unit in AirDNA, and the sum of all combined units' rental income will be used to determine the DSCR ratio. <p>GUIDELINES</p> <ul style="list-style-type: none"> • Select Prime Express Option -- Updated as follows: <ul style="list-style-type: none"> ◦ Non-Occupant Co-Borrower (DU): Ratios for the Occupying Borrower and Non-Occupant Co-Borrower may be blended provided FNMA requirements are met. • Super Jumbo – Updated as follows: <ul style="list-style-type: none"> ◦ 40-Yr I/O: Removed the qualification requirement (Qualify as 30-Yr at <=55% DTI). ◦ Ineligible Transactions: Escrow Waivers are not permitted.

- **State Restrictions** – Updated as follows:
 - Removed Vermont from non-licensed states.
 - Added a link to New York Subprime Loans (New Section)
- **State and Federal High Cost Loans** – Updated as follows:
 - Removed that bullet limiting NY OO loans under FNMA loan limits to Correspondent clients.
- **New York Subprime Loans** – **NEW SECTION**
 - NY Subprime loans will be permitted provided ALL the following requirements are met:
 - **Disclosures requirements:**
 - Borrower's Choice of Disclosure
 - Consumer Caution and Homeownership Counseling Notice
 - NYSDFS List of Approved Housing Counselors (no signature required)
 - All of the above must be delivered to the borrower prior to Closing.
 - Signature on the first two (2) documents will be required or if mailed out, evidence of mailing at least three (3) days prior to Closing.
 - Signatures/evidence of delivery must be for all borrowers on the loan.
 - **Mavent:**
 - Loan must NOT fail the **High Cost (NY Part 4 l) test**. [NQM Funding, LLC does not allow NY High-Cost Loans.](#)
 - Loans must NOT fail the **High Cost (NY) test**. [NQM Funding, LLC does not allow NY High-Cost Loans.](#)
 - Note: these are two separate Mavent tests.
 - Higher Rate review is where the subprime designation will show up:
 - A fail is permitted for the **Fixed Loan > 15 Year Term test (63900)**
 - ALL other tests under the Higher-Rate Review must PASS for the loan to be eligible.
 - **Sample of Acceptable Mavent Report:**

Higher-Rate Review	Result: FAIL	Top
Fixed Loan > 15 Year Term(63900)	FAIL	
This is a New York "subprime home loan." The loan's current APR (16.5832%) exceeds the New York Subprime Home Loan threshold of (9.32%) by (1.2632). The threshold is determined by adding 1.75 points to the comparable Freddie Mac PMMS rate. (NY Bank 6-m)(1)(c))		
Negam Prohibited(63920)	PASS	
This loan does not provide for negative amortization. New York Banking Law prohibits negative amortization in a "subprime home loan." (NY Bank 6-M2)(b))		
Modification Fee Prohibited(63930)	PASS	
This loan does not include a Modification Fee. New York Banking Law prohibits a lender from charging the borrower a Modification Fee in a "subprime home loan," if the loan continues to be a "subprime home loan" even after the modification. (NY Bank 6-M2)(e))		
Financed Credit Insurance Prohibited(63940)	PASS	
This loan does not include financed credit insurance. New York Banking Law prohibits the financing of credit insurance in a "subprime home loan." (NY Bank 6-M2)(g))		
Prepayment Penalty Prohibited(63960)	PASS	
This loan does not include a prepayment penalty. New York Banking Law prohibits a prepayment penalty in a "subprime home loan." (NY Bank 6-M2)(m))		
Initial Rate Must Be >= 6 Months(63970)	PASS	
The initial teaser rate period is (j) months. New York Banking Law prohibits an initial teaser rate period fewer than six months in a "subprime home loan." (NY Bank 6-M2)(q))		
Full Documentation Required Determining Ability to Repay(63980)	PASS	
The documentation type in this loan is (Full). New York Banking Law requires documentation of the borrower's ability to repay in a "subprime home loan." (NY Bank 6-M4)(b))		
Fixed Rate - APR at Commitment(63900)	INFO	
On a fixed rate loan, NY Bank 6-m(1)(b)(ii) defines "fully indexed rate" rate as "the annual percentage rate on the loan ... calculated at the time the lender issues its commitment." A best practice workflow is to calculate the fixed rate loan's APR on the date the commitment is issued to the applicant to ensure the APR does not exceed the applicable NY Subprime Threshold. Certain investors may measure the APR for purposes of fixed rate loan NY Subprime Threshold testing solely on the date the commitment is issued, and may ignore any subsequent change in the loan's APR. If the loan's APR at the time a commitment is issued exceeds the NY Subprime Threshold, the loan may be treated as a NY Subprime Loan. If a commitment is issued in a fixed rate loan, please review the NY Subprime threshold test completed on the date the commitment is intended to be issued. (NY Bank 6-m(1)(c))		

- **Closing Documentation Requirements:**

	<ul style="list-style-type: none"> • Must include a legend on the top of the mortgage in 12-point/font type stating: <i>"This mortgage is a subprime home loan subject to New York's subprime home loan laws."</i> <ul style="list-style-type: none"> ▪ Loan Program Requirements: <ul style="list-style-type: none"> • Fixed Rate • No PPP • Escrow impounds for taxes /insurance are required. • Refinance loans: • Must have a documented sufficient NTB, AND • Must not be a flip of a loan originated within 6 months, AND • May not pay off a special mortgage guaranteed through a state, tribal or local government, or nonprofit organization, which either bears a below-market interest rate at the time of origination, or has nonstandard payment terms beneficial to the borrower, and where, as a result of refinancing, the borrower will lose 1 or more of the special benefits. ▪ Correspondent Clients: <ul style="list-style-type: none"> • <u>Must ensure the correct Disclosures are generated with their Disclosure Package. Fillable PDFs of the required NY Subprime Disclosure are posted on the Portal.</u> <ul style="list-style-type: none"> • ITIN Matrix – Select Prime -Full Doc/Alt Doc – Updated as follows: <ul style="list-style-type: none"> ◦ Matrix: 1-Unit - Max Cash-Out LTV with FICO 660 updated to 75%. • Non-Occupant Co-Borrowers – Updated as follows: <ul style="list-style-type: none"> ◦ When using Express (DU) only, ratios for the Occupying Borrower and Non-Occupant Co-Borrower may be blended. • First-Time Home Buyers – Updated as follows: <ul style="list-style-type: none"> ◦ Removed the 6 months minimum reserves requirements. • IRS 4506-C Tax Transcripts – Updated as follows: <ul style="list-style-type: none"> ◦ Re-inserted the sentence that states: In addition, for wage earners whose income is documented through a FNMA DU Validation Electronic Verification of Employment vendor (i.e., Blend, Equifax, Experian, Finicity, Truework), which includes income transcripts are not required. • Short Term Rentals – Updated as follows: <ul style="list-style-type: none"> ◦ For 2-4 Units, a report must be pulled on each individual unit in AirDNA, and the sum of all combined units' rental income will be used to determine the rental income. • Gross Rent Documentation Requirements – Updated as follows: <ul style="list-style-type: none"> ◦ Refinance requirements: Leases are not required on no ratio loans. • DSCR Short Term Rental Income – Updated as follows: <ul style="list-style-type: none"> ◦ For 2-4 Units, a report must be pulled on each individual unit in AirDNA, and the sum of all combined units' rental income will be used to determine the DSCR ratio. • DSCR Mixed Use – Updated as follows: <ul style="list-style-type: none"> ◦ <u>Residential 5-10 units</u> - Clarified which appraisal form to use based on the loan amount. <ul style="list-style-type: none"> • FHLMC 71A (Loan Amounts <= \$750K); FHLMC 71B (for loan amounts > \$750K) ◦ <u>Mixed Use 2-8 Units</u> - Added appraisal forms that may be used by Correspondent. <ul style="list-style-type: none"> • FHLMC 71A (Loan Amounts <= \$750K); FHLMC 71B (for loan amounts > \$750K) ONLY FOR CORRESPONDENT.
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10 09 2023 V2	<p>MATRICES</p> <ul style="list-style-type: none"> • Select Prime – Full Doc/Alt Doc – Updated as follows: <ul style="list-style-type: none"> ◦ State Restrictions – Updated as follows: <ul style="list-style-type: none"> ▪ With the exception of condotels, Short Term Rental are ineligible in New York City. ▪ Clarified that restriction in IL Counties: Cook, Kane, Peoria and Will, do not apply to Correspondents. ◦ Prepayment Penalty: added a bullet: No PPP – Correspondent Only • Select Prime – ITIN – Full Doc/Alt Doc – Updated as follows: <ul style="list-style-type: none"> ◦ Gift Funds: Clarified a 5% minimum contribution from borrower's own funds are required for Owner Occupied and 10% for a Second Home. • Select Prime Super Jumbo (Full Doc/Alt Doc) – NEW PROGRAM LAUNCH <ul style="list-style-type: none"> ◦ Loan Amounts: \$3,500,001 - \$5,000,000 ◦ Max LTV: 70% ◦ Min Score: 720 for all borrowers on the loan ◦ Credit Event Seasoning: > 48 months ◦ Max DTI: 38% ◦ Occupancy: Primary Residence Only ◦ Housing History: 0x30x24 ◦ Ineligible Borrowers: <ul style="list-style-type: none"> ▪ Self-Employed Borrower/Business with < 2 years in operation/production. ▪ Non-Occupant Co-Borrowers ▪ First Time Home Buyers ▪ ITIN ◦ Loan Purpose: Purchase, Rate/Term and Cash-Out ◦ Bank Statement Documentation: Options for Self-Employed Borrower with < 2 years of employment or business operations are not permitted for Super Jumbo. ◦ Asset Utilization: allowed as supplemental income to employment or other primary source of income when DTI prior to use of assets is <= 50%, to attain a max DTI of 38%. ◦ Asset Utilization Calculation: qualified assets (sourced and seasoned for 4 months) divided by 84 months. ◦ Max Cash-Out (cash in hand): \$1,500,000 ◦ Property Types: <ul style="list-style-type: none"> ▪ SFD/PUD/Condo (Warrantable/non-Warrantable) 1-Unit ▪ Max 2 acres ▪ Farms/rural properties are not permitted. ◦ Appraisal Requirements: 2 full appraisals ◦ Declining Markets: <ul style="list-style-type: none"> ▪ Purchase & R/T Refinance: < of the matrix LTV or max 65%. ▪ Cash-Out: < of the matrix LTV or max 55% ◦ Gift Funds: Permitted on purchase transactions, after 20% minimum contribution towards down payments, closing costs, prepaids, and reserves are met from borrower's own funds. • Select Prime 2nd Lien – Updated as follows: <ul style="list-style-type: none"> ◦ State Restrictions – Updated as follows: <ul style="list-style-type: none"> ▪ Clarified that restriction in IL Counties: Cook, Kane, Peoria and Will, do not apply to Correspondents. ◦ Borrowers: Non-Occupant Co-Borrower are not permitted. ◦ Transaction Type: Added eligibility for Rate/Term Refinance. • Investor – DSCR (1-4 Units ONLY) – Updated as follows: <ul style="list-style-type: none"> ◦ State Restrictions – Updated as follows: <ul style="list-style-type: none"> ▪ With the exception of condotels, Short Term Rental are ineligible in New York City. ◦ AirDNA Short Term Rentals: <ul style="list-style-type: none"> ▪ Added Rate/Term Refinance transactions eligibility only when the property has been recently renovated. ▪ Updated the description for eligible markets to “vacation, entertainment or tourism destination market.” ▪ Updated AirDNA required report name “Property Earning Potential (Rentalizer Report)
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- Reduced the Occupancy Rate minimum requirement to $\geq 50\%$
 - Eliminated the requirement to use the Overview Report.
 - Eliminated the Market Score requirement.
- **Investor – DSCR (5-10 Units Residential or Mixed Use 2-8 Units)** – Updated as follows:
 - **Unleased Units:** Removed for need for Borrower to provide a letter of explanation on refinance transactions.
- **Foreign National (Full Doc & DSCR)** – Updated as follows:
 - **State Restrictions** – Updated as follows:
 - With the exception of condotels, Short Term Rental are ineligible in New York City.
 - Clarified that restriction in IL Counties: Cook, Kane, Peoria and Will, do not apply to Correspondents.
- **Foreign National / DSCR (1-4 Units ONLY)** – Updated as follows:
 - **AirDNA Short Term Rentals:**
 - Added Rate/Term Refinance transactions eligibility only when the property has been recently renovated.
 - Updated the description for eligible markets to “vacation, entertainment or tourism destination market.”
 - Updated AirDNA required report name: “Property Earning Potential (Rentalizer Report)”
 - Reduced the Occupancy Rate minimum requirement to $\geq 50\%$
 - Eliminated the requirement to use the Overview Report.
 - Eliminated the Market Score requirement.
- **Prepayment Penalty Requirements** – Updated as follows:
 - **DE:** For loan applications registered and/or locked on or after 10/1/2023, prepayment penalties on NOO properties are allowed in the State of Delaware.

GUIDELINES

- **Programs** – Updated as follows:
 - Added the Select Prime Super Jumbo Program
- **Select Prime Super Jumbo** – Updated as follows:
 - Added a new section to list the Super Jumbo Program applicable overlays.
- **Closed End Fixed Rate Second Mortgage** – Updated as follows:
 - Add Rate/Term Refinance to eligible transactions.
- **Select Lien – Ineligible Borrowers** – New section was updated as follows:
 - Non-Occupant Co-Borrowers are not permitted.
- **Cash-Out - Ownership Requirements** – Updated as follows:
 - Clarified that if partnership or corporation, in addition to an LLC, owned a property prior to closing, that is majority-owner or controlled by the borrower(s), the time it was held by the LLC may be counted towards meeting the borrower’s six-month ownership requirement.
- **ITIN – Credit Requirements** – Updated as follows:
 - Added a bullet under Housing History to indicate that Borrowers who own their primary residence free and clear are considered to have an acceptable housing history.
- **ITIN – Gift Funds – Select Prime** – Updated as follows:
 - Added a clarification that a 5% minimum contribution from borrower’s own funds are required for Owner Occupied and 10% for a Second Home.
- **Alt Doc – Asset Utilization – Calculating Income** – Updated as follows:
 - Separated the qualifying sections into two sections:

	<ul style="list-style-type: none"> ▪ Calculating Qualifying Income – Select Prime ▪ Calculating Qualifying Income – Super Jumbo. ○ Calculating Qualifying Income – Super Jumbo: Asset Utilization is permitted to supplement employment or other primary source of income, as follows: <ul style="list-style-type: none"> ▪ The DTI without asset utilization must be $\leq 50\%$, then follow the below calculation when determining the amount of income to use as secondary income from assets to attain a Max DTI of 38%. ▪ $\text{Monthly Income} = \text{Net Qualified Assets} / 84 \text{ Months}$
	<ul style="list-style-type: none"> • Gift Funds – Updated as follows: <ul style="list-style-type: none"> ○ Owner Occupied Properties – added a bullet stating that under the Super Jumbo Program, gift funds are permitted on purchase transactions, after a 20% minimum contribution towards down payments, closing costs, prepaids, and reserves are met from borrower's own funds. • Business Entity – Personal Guaranty – Updated as follows: <ul style="list-style-type: none"> ○ The fourth bullet was updated to indicate the loan application, credit report, income and asset for the authorized signer will be used to determine the qualification and pricing ○ Reworded the last two bullets under Personal Guaranty to clarify which combination of documents need to be signed by the Personal Guaranty and/or member(s). • Gap Credit Report – Updated as follows: <ul style="list-style-type: none"> ○ A credit refresh or <u>undisclosed debt monitoring</u> report dated within 10 days of closing is required. • Child Support, Alimony or Maintenance Obligations – Updated as follows: <ul style="list-style-type: none"> ○ For alimony and <u>separate maintenance obligations</u>, the lender has the option to reduce the qualifying income by the amount of the obligation in lieu of including it as a monthly payment in the calculation of the DTI ratio. • Short Term Rentals – Updated as follows: <ul style="list-style-type: none"> ○ Clarified that with the exception of condotels, Short Term Rental in New York City are ineligible. ○ Reworded the entire section to provide greater clarity on purchase and refinance transactions requirements including: <ul style="list-style-type: none"> ▪ Purchases: <ul style="list-style-type: none"> • For long term rental a 25% vacancy factor applies at all times. • The AirDNA occupancy date from the "Property Earning Potential (Rentalizer Report)" must be applied to compute the relevant vacancy factor. ▪ Refinances: <ul style="list-style-type: none"> • Added clarity for documentation requirements for rents verified based on the income documentation and additional requirements when income is derived from two or more rental properties. • Bank Statement Documentation – General Requirements – Updated as follows: <ul style="list-style-type: none"> ○ For Option 1 and Option 2 (Self-Employed < 2 yrs.) added the Super Jumbo Program as ineligible. • Minimum Borrower Contribution – Updated as follows: <ul style="list-style-type: none"> ○ Rearranged the section to provide greater clarity on ITIN and Foreign National minimum borrower contribution and gift funds requirements. • Rural Properties – Updated as follows: <ul style="list-style-type: none"> ○ Added a bullet to indicate that rural properties are not permitted for the Super Jumbo Program. • Appraisal Review Process – Updated as follows: <ul style="list-style-type: none"> ○ Removed the maximum loan amount exception eligibility bullet. • Debt-Service Coverage Ratio – Updated as follows:

	<ul style="list-style-type: none"> o Removed a paragraph regarding calculation of Gross Income for simplification. • Gross Rent Documentation Requirements – Updated as follows: <ul style="list-style-type: none"> o Purchase Transaction: Removed the requirement to provide the Lease when it is transferred to the borrower. o Refinance Transactions: Removed two bullets addressing short term rentals which are covered in their own section. • Prepayment Penalty Requirements by State – Updated as follows: <ul style="list-style-type: none"> o DE: For loan applications registered and/or locked on or after 10/1/2023, prepayment penalties on NOO properties are allowed in the State of Delaware. • DSCR (1-4 Units Only)– Short Term Rental Income – Updated as follows: <ul style="list-style-type: none"> o Updated the name of the AirDNA Report to be used: Property Earning Potential (Rentalizer Report) o Reduced the required Occupancy Rate to >= 50%. o Eliminated the use of the Overview Report o Eliminated the Market Score requirement.
10 09 2023	<p>MATRICES</p> <ul style="list-style-type: none"> • Select Prime – Full Doc/Alt Doc – Updated as follows: <ul style="list-style-type: none"> o State Restrictions – Updated as follows: <ul style="list-style-type: none"> ▪ Clarified that restriction in IL Counties: Cook, Kane, Peoria and Will, do not apply to Correspondents. o Prepayment Penalty: added a bullet: No PPP – Correspondent Only • Select Prime – ITIN – Full Doc/Alt Doc – Updated as follows: <ul style="list-style-type: none"> o Gift Funds: Clarified a 5% minimum contribution from borrower's own funds are required for Owner Occupied and 10% for a Second Home. • Select Prime Super Jumbo (Full Doc/Alt Doc) – NEW PROGRAM LAUNCH <ul style="list-style-type: none"> o Loan Amounts: \$3,500,001 - \$5,000,000 o Max LTV: 70% o Min Score: 720 for all borrowers on the loan o Max DTI: 38% o Occupancy: Primary Residence Only o Housing History: 0x30x24 o Ineligible Borrowers: <ul style="list-style-type: none"> ▪ Self-Employed Borrower/Business with < 2 years in operation/production. ▪ Non-Occupant Co-Borrowers ▪ First Time Home Buyers ▪ ITIN o Loan Purpose: Purchase, Rate/Term and Cash-Out o Max Cash-Out (cash in hand): \$1,500,000 o Property Types: <ul style="list-style-type: none"> ▪ SFD/PUD/Condo (Warrantable/non-Warrantable) 1-Unit ▪ Max 2 acres ▪ Farms/rural properties are not permitted. o Appraisal Requirements: 2 full appraisals o Declining Markets: <ul style="list-style-type: none"> ▪ Purchase & R/T Refinance: < of the matrix LTV or max 65%. ▪ Cash-Out: < of the matrix LTV or max 55% o Gift Funds: Permitted after 20% contribution from borrower's own funds. o Credit Event Seasoning: > 48 months • Select Prime 2nd Lien – Updated as follows: <ul style="list-style-type: none"> o State Restrictions – Updated as follows: <ul style="list-style-type: none"> ▪ Clarified that restriction in IL Counties: Cook, Kane, Peoria and Will, do not apply to Correspondents. o Borrowers: Non-Occupant Co-Borrower are not permitted.

	<ul style="list-style-type: none"> ○ Transaction Type: Added eligibility for Rate/Term Refinance. • Investor – DSCR (1-4 Units ONLY) – Updated as follows: <ul style="list-style-type: none"> ○ AirDNA Short Term Rentals: <ul style="list-style-type: none"> ▪ Added Rate/Term Refinance transactions eligibility only when the property has been recently renovated. ▪ Updated the description for eligible markets to “vacation, entertainment or tourism destination market.” ▪ Updated AirDNA required report name “Property Earning Potential (Rentalizer Report) ▪ Reduced the Occupancy Rate minimum requirement to >= 50% ▪ Eliminated the requirement to use the Overview Report. ▪ Eliminated the Market Score requirement. • Investor – DSCR (5-10 Units Residential or Mixed Use 2-8 Units) – Updated as follows: <ul style="list-style-type: none"> ○ Unleased Units: Removed for need for Borrower to provide a letter of explanation on refinance transactions. • Foreign National (Full Doc & DSCR) – Updated as follows: <ul style="list-style-type: none"> ○ State Restrictions – Updated as follows: <ul style="list-style-type: none"> ▪ Clarified that restriction in IL Counties: Cook, Kane, Peoria and Will, do not apply to Correspondents. • Foreign National / DSCR (1-4 Units ONLY) – Updated as follows: <ul style="list-style-type: none"> ○ AirDNA Short Term Rentals: <ul style="list-style-type: none"> ▪ Added Rate/Term Refinance transactions eligibility only when the property has been recently renovated. ▪ Updated the description for eligible markets to “vacation, entertainment or tourism destination market.” ▪ Updated AirDNA required report name: “Property Earning Potential (Rentalizer Report) ▪ Reduced the Occupancy Rate minimum requirement to >= 50% ▪ Eliminated the requirement to use the Overview Report. ▪ Eliminated the Market Score requirement. • Prepayment Penalty Requirements – Updated as follows: <ul style="list-style-type: none"> ○ DE: For loan applications registered and/or locked on or after 10/1/2023, prepayment penalties on NOO properties are allowed in the State of Delaware. <p>GUIDELINES</p> <ul style="list-style-type: none"> • Programs – Updated as follows: <ul style="list-style-type: none"> ○ Added the Select Prime Super Jumbo Program • Select Prime Super Jumbo – Updated as follows: <ul style="list-style-type: none"> ○ Added a new section to list the Super Jumbo Program applicable overlays. • Closed End Fixed Rate Second Mortgage – Updated as follows: <ul style="list-style-type: none"> ○ Add Rate/Term Refinance to eligible transactions. • Select Lien – Ineligible Borrowers – New section was updated as follows: <ul style="list-style-type: none"> ○ Non-Occupant Co-Borrowers are not permitted. • Cash-Out - Ownership Requirements – Updated as follows: <ul style="list-style-type: none"> ○ Clarified that if partnership or corporation, in addition to an LLC, owned a property prior to closing, that is majority-owner or controlled by the borrower(s), the time it was held by the LLC may be counted towards meeting the borrower’s six-month ownership requirement. • ITIN – Gift Funds – Select Prime – Updated as follows: <ul style="list-style-type: none"> ○ Added a clarification that a 5% minimum contribution from borrower’s own funds are required for Owner Occupied and 10% for a Second Home.
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	<ul style="list-style-type: none"> • Business Entity – Personal Guaranty – Updated as follows: <ul style="list-style-type: none"> ◦ Added a bullet to state that the only time a personal guaranty is not required is when all members of the entity sign the note/mortgage personally <u>and</u> for the entity. • Gap Credit Report – Updated as follows: <ul style="list-style-type: none"> ◦ A credit refresh or <u>undisclosed debt monitoring</u> report dated within 10 days of closing is required. • Child Support, Alimony or Maintenance Obligations – Updated as follows: <ul style="list-style-type: none"> ◦ For <u>alimony</u> and <u>separate maintenance obligations</u>, the lender has the option to reduce the qualifying income by the amount of the obligation in lieu of including it as a monthly payment in the calculation of the DTI ratio. • Short Term Rentals – Updated as follows: <ul style="list-style-type: none"> ◦ Reworded the entire section to provide greater clarity on purchase and refinance transactions requirements including: <ul style="list-style-type: none"> ▪ Purchases: <ul style="list-style-type: none"> • For long term rental a 25% vacancy factor applies at all times. • The AirDNA occupancy date from the "Property Earning Potential (Rentalizer Report)" must be applied to compute the relevant vacancy factor. ▪ Refinances: <ul style="list-style-type: none"> • Added clarity for documentation requirements for rents verified based on the income documentation and additional requirements when income is derived from two or more rental properties. • Minimum Borrower Contribution – Updated as follows: <ul style="list-style-type: none"> ◦ Rearranged the section to provide greater clarity on ITIN and Foreign National minimum borrower contribution and gift funds requirements. • Appraisal Review Process – Updated as follows: <ul style="list-style-type: none"> ◦ Removed the maximum loan amount exception eligibility bullet. • Debt-Service Coverage Ratio – Updated as follows: <ul style="list-style-type: none"> ◦ Removed a paragraph regarding calculation of Gross Income for simplification. • Gross Rent Documentation Requirements – Updated as follows: <ul style="list-style-type: none"> ◦ Purchase Transaction: Removed the requirement to provide the Lease when it is transferred to the borrower. ◦ Refinance Transactions: Removed two bullets addressing short term rentals which are covered in their own section. • DSCR (1-4 Units Only)- Short Term Rental Income – Updated as follows: <ul style="list-style-type: none"> ◦ Updated the name of the AirDNA Report to be used: Property Earning Potential (Rentalizer Report) ◦ Reduced the required Occupancy Rate to >= 50%. ◦ Eliminated the use of the Overview Report ◦ Eliminated the Market Score requirement.
9/11/2023 v2	MATRICES <ul style="list-style-type: none"> • Select Prime Express – Full & Alt Doc – Updated as follows: <ul style="list-style-type: none"> ◦ State Restrictions: Short Term Rentals are ineligible in New York City effective 9/5/2023. ◦ Underwriting Methods: Loan many not be ineligible in DU due to risk factors. ◦ First Time Homebuyers: Are also eligible to finance Non-Owner-Occupied properties. • Select Prime – ITIN – Full Doc -- Updated as follows: <ul style="list-style-type: none"> ◦ Income Doc Type: Clarified that if FNMA DU Validation electronic vendor's VOE w/Income is provided, then transcript is not required. • Select Prime 2nd Lien – Updated as follows: <ul style="list-style-type: none"> ◦ Restrictions: MS and TX added to ineligible states • Investor – DSCR (1-4 Units) – Updated as follows: <ul style="list-style-type: none"> ◦ State Restrictions: Short Term Rentals are ineligible in New York City effective 9/5/2023.

- DSCR \geq .75 to $<$ 1.00 and 740 FICO: Updated the Cash-Out Matrix LTV to 60%.
- **Foreign National** – Updated as follows:
 - **State Restrictions:** Short Term Rentals ineligible in New York City
 - **Income/DSCR:** Added Short Term Rentals and AirDNA eligibility with the following FN limitations:
 - Min DSCR: \geq 1.15
 - Max LTV: Lesser of 70% LTV or matrix LTV.
 - All other requirements apply.

GUIDELINES

- **Second Lien - Ineligible States** – Updated as follows:
 - Added MS and TN as ineligible states.
- **State Restrictions** – Updated as follows:
 - **Short Term Rentals:** Effective 9/5/2023 are ineligible in New York City.
- **Land Contract/Contract for Deed** – Updated requirements based on occupancy as follows:
 - Primary Residence only when the land contract is unrecorded.
 - Second Homes and Investment Homes are permitted only when the Land Contract has been recorded for a minimum of 12 months prior to closing on the new transaction.
- **Short Term Rentals** – Updated as follows:
 - Added a link to State Restriction and bullet to make STRs in New York City ineligible.
- **Alt Doc Combined with Other Income Sources** – Updated as follows:
 - Added clarity to specifying that borrowers using bank statement documentation who also received rental income as a secondary source, are permitted to qualify using both sources of income.
- **Borrowed Funds Secured by an Asset** – Updated as follows:
 - Added real estate to the list of eligible sources of assets.
- **Business Assets** – Updates as follows:
 - Clarified that the transaction must be acknowledged and the borrower's access to the funds in the account must be documented via one of the following:
 - A letter signed and dated by all non-borrowing owners of the business, or
 - A letter signed and dated by the CFO or Board of Directors.
- **Gift Funds** – Updated as follows:
 - Clarified the scenarios under which a minimum contribution toward down payment or closing costs from the borrower's own funds may not be required; but in all instances borrower must meet reserve requirements with their own funds.
- **Age of Appraisal and Appraisal Updates** – Updated as follows:
 - For Appraisals aged $>$ 120 days requiring re-inspection on Form 1004D, a photograph of the front of the subject property must be included.
- **Property Considerations - Deferred Maintenance** – Updated as follows:
 - Added a bullet with instructions to reference the deferred maintenance guidance for Condominiums, and Review Requirements for Condominiums and the Condominiums Significant Deferred Maintenance and Unsafe Conditions sections.
- **Condominiums** – updated as follows:
 - Reorganized the entire section adding review requirements in alignment with the FHFA and FNMA to address concerns of aging condominium projects with material deficiencies or significant deferred maintenance and updated insurance coverage requirements.
 - Added the following sections:
 - **Project in Need of Critical Repairs**
 - **Special Assessments**
 - **Inspection Reports**
- **Property Insurance** – Updated the following sections to align with FNMA insurance coverage updates.
 - **Minimum Hazard Insurance Coverage**
 - **Determining the Amount of Required Hazard Coverage**
 - **Temporary Requirements for Condo Projects**
 - **PUD Projects - Coverage Requirements and Special Coverage Requirements** – Updated as follows:
 - Added requirements for:
 - Inflation Guard Coverage
 - Building Ordinance or Law Coverage
 - Boiler and Machinery/Equipment Breakdown Coverage

	<ul style="list-style-type: none"> ▪ PUD Coverage - Require Coverage Amount ▪ PUD Coverage – Policies Covering Multiple Projects • DSCR – Mortgage and Rental Payment Verification – Updated as follows: <ul style="list-style-type: none"> ○ Reworded the section to provide clarity that the combined housing payment history may not exceed 1x30 in the past 12 months and be current at closing when the DSCR is .75 or greater. ○ Clarified that mortgage/housing histories are only required for the subject property and primary residence.
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