DSCR Expanded Guidelines – Business Purpose Lending

Contents

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Overview

The information below is a representative summary of the PwrTPO DSCR Program. This loan program is available through the Wholesale and IMB channel. Loans in the IMB channel must use PwrTPO for closing documents. PwrTPO follows Federal, State, and Local licensing requirements. The TPO and Loan Officer must be licensed in the subject property state.

Eligibility Matrix

		DSCR ≥ 1.00		DSCR < 1.00*	
Loan Amount	**FICO**	**Purchase & Rate/Term**	**Cash Out**	**Purchase & Rate/Term**	**Cash Out**
≤ $1,500,000	≥ 720	80%	80%	75%	70%
	700 ≤ 719	80%	75%	75%	65%
	680 ≤ 699	75%	75%	70%	65%
	640 ≤ 679	70%	70%	n/a	n/a
≤ $2,000,000	≥ 700	80%	75%	70%	65%
	680 ≤ 699	75%	75%	65%	65%
	660 ≤ 679	65%	65%	n/a	n/a
≤ $2,500,000	≥ 700	70%	70%	60%	60%
	660 ≤ 699	65%	65%	n/a	n/a
Mortgage History		0x30x12			
BK/FC/SS/DIL Seasoning		36 Months			
Loan amounts below $125,000 are limited to a maximum 75% LTV. See General Information below.					
**Minimum DSCR Ratio is 0.75*					

General Information

Program	The DSCR Expanded Loan is designed for investment property loans that are designated for business purposes only.
Products	• 30-Year Fixed
Minimum DSCR	Minimum DSCR Ratio is 0.75
Loan Amounts and LTVs	• Minimum Loan Amount - $75,000 • Loan Amounts below $125,000 – Maximum 75% LTV • Minimum Loan Amount DSCR < 1.00 - $200,000 • Max Cash Out <65 LTV - $1,000,000 • Max Cash Out >65 LTV - $500,000 • See the PwrTPO product-specific matrices for loan amounts and LTVs.
LTV Reductions	All LTV reductions are cumulative.
State Restrictions	• Baltimore City, MD & Philadelphia, PA • Hawaii, New York, Vermont, Puerto Rico, US Virgin Islands, Guam, American Samoa, North Mariana Islands

<table>
<tr><td>Age of Documentation</td><td>Unless otherwise noted, all loan documentation must be dated within 120 days of closing.</td></tr>
<tr><td>Prepayment Penalties</td><td>Please refer to the DSCR Prepayment Penalty Matrix found in Resources > Job Aids and Worksheets.</td></tr>
<tr><td>Required Forms</td><td>Business Purpose & Occupancy Affidavit: all Borrowers, Borrowing Entities, and/or Personal Guarantors are required to sign at closing to declare that the property is, or will be, for commercial business or investment purpose only
1-4 Family Rider/Assignment of Rents (FNMA Form 3170)
PwrTPO Guaranty Form (if applicable)</td></tr>
<tr><td>Additional Requirements</td><td>PwrTPO mortgage loan products do not require Mortgage Guarantee Insurance, Private Mortgage Insurance, or other like coverages.</td></tr>
<tr><td>Exceptions</td><td>Exceptions to published guidelines are considered on a case-by-case basis. The decision does not bind a seller with respect to the underlying decision to extend credit. PwrTPO reserves the right to allow guideline variances when accompanied by a compensating factor(s).</td></tr>
<tr><td>Lock Extension</td><td>The lock period does not offer any free extensions.
Up to 3 lock extensions can be requested for a total of thirty (30) days extended max
<table>
<tr><th>Days Extended</th><th>Extension Fee</th></tr>
<tr><td>5</td><td>-0.125</td></tr>
<tr><td>10</td><td>-0.250</td></tr>
<tr><td>15</td><td>-0.375</td></tr>
<tr><td>30</td><td>-0.75</td></tr>
</table></td></tr>
<tr><td>Relock Options</td><td>Relocks are available once a lock is expired, has been canceled, or the loans have been reinstated.
A loan that is relocked within thirty (30) days from the original lock expiration or cancellation will be subject to Worse Case Pricing less 25 bps. Worse Case Pricing will be subject to most recent lock net price inclusive of extension costs, if applicable, compared to current market net price.
Loans relocked after thirty (30) days from the original lock expiration or lock cancellation will be subject to Current Market Pricing.
Loans may be relocked for thirty (30) days. Worse case pricing is subject to a relock fee of 25 bps. Relock fees are applied to each relock and are cumulative for multiple relocks.</td></tr>
</table>

Transactions

Purchase

- Copy of the fully executed purchase contract and all attachments or addenda is required.
- Lesser of the purchase price or appraised value of the subject property is used to calculate the loan-to-value.

General Refinance Requirements

Determining Loan-To-Value (LTV):

- If the property was acquired ≥ 6 months from note date, the appraised value may be used to determine loan-to-value.
- If the property was acquired < 6 months from note date, the lesser of the current appraised value or the previous purchase price plus documented improvements (if any) must be used. The purchase settlement statement and any invoices for materials/labor will be required.
- If the property was acquired < 6 months from note date and the property was subsequently renovated, the appraised value can be used, subject to the below requirements:
  - Provide original listing photos and/or original appraisal from purchase illustrating property condition prior to renovation.
  - Full appraisal required reflecting improvements made since purchase.
  - Value must be supported by a Clear Capital CDA or FNMA Collateral Underwriter/FHLMC Loan Collateral Advisor Review with a score of 2.5 or less (must include a copy of the Submission Summary Report).
  - Allowed with 5% LTV reduction from max available.

Lease Requirements:

- Fully executed, active lease at time of close for all units in the subject property is required.
- Month-to-month tenancy is not subject to this requirement with sufficient evidence (such as a signed extension letter). Purchase transactions may be vacant.
- The following requirements apply to refinance transactions:
  - The lesser of the estimated market rent from FNMA Form 1007 or the monthly rent from the existing lease must be used to calculate DSCR. A higher lease amount is allowed with evidence of receipt for three (3) months. See Ratios and Qualifying > Long-Term Rental Income for full calculation requirements.
  - The property must not be occupied by a borrower, guarantor, any member of the borrower's LLC, or any family member.
  - **Unleased Properties**
    - 5% LTV reduction required on refinances.
    - No LTV reduction for purchase transactions.
    - Not permitted when DSCR ratio is below 1.00.
  - **Unleased Properties with 2+ Units**
    - Max 1 vacant unit on refinances when subject property is 2-unit or 3-unit.
    - Max 2 vacant units on refinances when subject property is 4-unit.

Properties Listed for Sale:

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

Rate/Term Refinances

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

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

Cash-Out Refinance

- A cash-out refinance is a refinance that does not meet the rate/term refinance definition. Cash-out would include a refinance where the borrower receives cash from the transaction or when an open-ended subordinate lien (that does not meet the rate/term seasoning requirements) is refinanced into the new transaction.
- A mortgage taken out on a property previously owned free and clear is always considered a cash-out refinance.
- The mortgage amount for a cash-out refinance transaction may include any of the following:
  - Existing first mortgage payoff
  - Closing costs and prepaid items (interest, taxes, insurance) on the new mortgage
  - The amount of any subordinate mortgage liens being paid off that do not meet seasoning and draw history requirements as described in Rate/Term Refinance.
  - The amount of any non-mortgage related debt paid off through closing

    - Additional cash in hand reflected on the settlement statement
- State required Net Tangible Benefit (NTB) must be met

Cash-Out Proceeds:

- Maximum cash-out: $1,000,000 (see PwrTPO product-specific matrices for restrictions)
- DSCR 0.75 – 0.99: Maximum cash out $500,000
- Cash-out may be used towards reserves.
- Cash-out proceeds may only be utilized for business purposes as prescribed on the Business Purpose & Occupancy Affidavit.

Flip Transactions

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

Flip transactions are subject to the following requirements:

- All transactions must be arm's length, with no identity of interest between the buyer and property seller or other parties participating in the sales transaction.
- No pattern of previous flipping activity may exist in the last 12 months. Exceptions to ownership transfers may include newly constructed properties, sales by government agencies, properties inherited or acquired through divorce, and sales by the holder of a defaulted loan.
- The property was marketed openly and fairly, through a multiple listing service, auction, for sale by owner offering (documented) or developer marketing.
- No assignments of the contract to another buyer.
- If the property is being purchased for more than 5% above the appraised value, a signed letter of acknowledgement from the borrower or guarantor must be obtained.

A second appraisal is required in the following circumstances:

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

Inherited Properties and Property Buyouts

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

These transactions are subject to the following:

- Written agreement signed by all parties stating the terms of the buyout and property transfer must be obtained.
- Equity owners must be paid through settlement.
- Subject property has cleared probate, and property is vested in the borrower's name.
- Current appraised value is used to determine loan-to-value.

Permanent Financing for New Construction

A construction-to-permanent transaction may be closed as a purchase, rate/term refinance or cash-out refinance. All construction work must be complete.

- For lots owned ≥ 6 months from application date for the subject transaction, LTV is based on the current appraised value.
- For lots owned < 6 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).

When a refinance transaction is used, the borrower must hold legal title to the lot before he/she applied for the construction financing and must be named as the borrower for the construction loan.

Delayed Financing

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

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

Ineligible Transactions

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

Borrowers

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: "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until mm-dd-yy. Employment Authorized."

Non-Permanent Resident Aliens

Verification of Residency Status:

- The following visa classifications are allowed as Non-Permanent Resident Aliens: E-1, E-2, E-3, G-1 through G-5, H-1B and H-1C, H-2 through H-4, L-1B, L-2, NATO 1 through 6, O-1, R-1, TN-1 & 2 (NAFTA)
- Copies of the borrower's passport and unexpired visa are required. Acceptable alternative documentation to verify visa classification is an I-797 Form (Notice of Action) with valid extension dates and an I-94 Form (Arrival/Departure Record). Borrowers unable to provide evidence of lawful residency status in the U.S. are not eligible for financing.
- Valid employment authorization document (EAD) must be obtained if the visa is not sponsored by the borrower's current employer. If the visa will expire within 6 months of loan application, it is acceptable to obtain a letter from the employer documenting the borrower's continued employment and continued visa renewal sponsorship (employer on the application must be the same as on unexpired visa)
- If a non-U.S. citizen is borrowing with a U.S. citizen, it does not eliminate visa or other residency requirements. Individuals in possession of spouse or family member visas are to qualify as co-borrowers only. A valid EAD must be provided to use income for qualification.
- Borrowers who are residents of countries which participate in the State Department's Visa Waiver Program (VWP) will not be required to provide a valid visa.
- Citizens of Venezuela are ineligible.

Credit Requirements:

- U.S. credit report for each borrower using a valid SSN.
- 12-month housing history.

Assets:

Funds required for down payment/closing must be seasoned for 30 days.

Borrowing Entities

- Borrowing Entities in the form of a U.S. domestic Limited Liability Company (hereafter referred to as Borrowing Entity or borrower) are allowed under DSCR only. A Personal Guarantor is also required.
- Each member of the Borrowing Entity providing a personal guaranty (each a "Personal Guarantor") must complete a loan application or similar credit application signed in their individual capacity. If a standard FNMA Form 1003 is used, the section labeled, "Title to the Property Will be Held in What Name(s)," should include the Borrowing Entity name. Borrowing Entities and Guarantors must also receive notice of the loan and its terms prior to closing.
- The business purpose and activities of the Borrowing Entity are limited to ownership and management of real estate, and ownership is limited to a maximum of 8 owners (aka members, partners, or shareholders) including a maximum of 4 Personal Guarantors.
- Members of the LLC may also not be a trust.
- A maximum of 4 individuals may be on the loan application.
- The following documentation is required for each Borrowing Entity:
    - Articles Of Organization/Certificate of Formation
    - Secretary of State Search

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

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

Articles of Organization/Certificate of Formation:

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

Secretary of State Search:

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

Operating Agreement:

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

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

Certificate of Good Standing:

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

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

Series or Layered LLCs

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

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

Personal Guarantors

Personal Guarantors:

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

Eligible Guarantors:

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

Ineligible Guarantors:

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

Customer Identification

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

Fraud Report and Background Check

- All loans must include a third-party fraud detection report for all borrowers, guarantors, and all members of each Borrowing Entity. Report findings must cover standard areas of quality control including, but not limited to: borrower/guarantor validation, social security number verification, entity validation, criminal records, and property information (subject property and other real estate owned). All high-level alerts on the report must be addressed by PwrTPO.
- 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.
- The fraud check should also include occupancy status to assist in the validation and endorsement of the Business Purpose & Occupancy Affidavit.

Exclusionary List / OFAC / Diplomatic Immunity

- All parties involved in 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, guarantors, property sellers, employers, banks, etc.). A search of the Specially Designated Nationals and Blocked Persons List may be completed via the U.S. Department of the Treasury website at https://sanctionssearch.ofac.treas.gov/.
- Borrowers or guarantors from OFAC sanctioned countries are ineligible. A list of sanctioned countries is available at https://home.treasury.gov/policy-issues/financial-sanctions/sanctions-programs-and-country-information.
- Individuals with diplomatic immunity are not eligible due to the inability to compel payment or seek judgment. Verification the borrower or guarantor does not have diplomatic immunity can be determined by reviewing the visa, passport, and/or the U.S. Department of State's Diplomatic List at https://www.state.gov/resources-for-foreign-embassies/deans-of-the-diplomatic-corps/.

First-Time Investor

Defined as borrower who has not owned at least one investment property for at least 12 months anytime during the most recent 12-month period.

- Minimum DSCR 1.00
- Minimum FICO 700
- Long-term rental Income only

Limited Power of Attorney

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

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
  - LLC - Limited Liability Company (members of the LLC may also not be a trust)
  - Limited and General Partnerships
  - Corporations
  - S Corporations

Inter Vivos Revocable Trust Vesting:

- Inter Vivos Revocable Trusts are allowed as vested or titled owners of the subject property (but not as borrowers).
  - Trust must be established by one or more natural persons, solely or jointly.
  - Primary beneficiary of the trust must be the individuals who establish the trust.
  - Trust must become effective during the lifetime of the person establishing the 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 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.
- 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.

Business Entity Vesting:

Ownership or title vesting in the name of a U.S. domestic Limited Liability Company (LLC), partnership, or corporation (collectively 'Entity') is acceptable. For requirements for entity borrowers, see Borrowing Entities.

- To vest ownership in an Entity but close in the name of a natural person, the following must be met:
- Business purpose and activities are limited to ownership and management of real estate.
- Entity limited to a maximum of 8 owners (aka members, partners, or shareholders).
- A minimum of 50% of the Entity ownership must be represented as borrowers on the loan, each completing a 1003 as applicants.
- A maximum of 4 individuals may be on the loan application.
- Members of the LLC may also not be a trust.
- The loan application credit report, and assets for each Entity owner will be used to determine qualification and pricing.
- Each Entity owner must receive notice of the loan and its terms prior to closing.

The following Entity documentation must be provided:

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

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

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

Leasehold Estate

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.
- 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:

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

Additional Eligibility Requirements:

- 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 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.

Multiple Financed Properties and PwrTPO Exposure

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

Ineligible Borrowers

- Borrowers with diplomatic immunity or otherwise excluded from U.S. jurisdiction
- Residents of any country not permitted to transact business with U.S. companies are ineligible (as determined by any U.S. government authority)
- Trusts or Land Trusts (trusts may qualify for ownership vesting only)
- Nonprofit organizations
- Borrowers less than 18 years old
- Loans to employees of seller
- First-Time Home Buyers, unless two or more borrowers are on the loan and at least one is not a first-time home buyer
  - A first-time home buyer is a borrower who has not owned a primary residence during the most recent 36-month period.
  - First-time home buyers are eligible when two or more borrowers are on the loan and at least one is not a first-time home buyer.
  - A loan on which all borrowers are first-time home buyers is ineligible.
- ITIN Borrowers

Credit Analysis

Credit Report

- Credit reports must follow the Classic FICO model. Soft credit pulls are not acceptable.
- Credit report and valid SSN required for every borrower or guarantor. The credit report should provide merged credit information from the 3 major national credit repositories.
- 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 may not be more than 120 days old at the time of closing.

Fraud Alerts:

- All Fraud Alerts must be properly addressed and resolved prior to submitting the loan to underwriting. The actions must be reasonable and compliant with applicable laws. An underwriting decision cannot be made without full resolution of the alert.
- Examples of fraud alerts include: Initial 90-day Fraud Alert; Extended Fraud Alert; Active-Duty Alert; HAWK 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 must be obtained to reflect current and updated information from all repositories.

Credit Score

- To determine the Representative Credit Score for all borrowers or guarantors, select the middle score when 3 agency scores are provided and the lower score when only 2 agency scores are provided. Each borrower or guarantor must have a valid score from at least 2 of the following 3 agencies: Experian (FICO), Trans Union (Empirica), and Equifax (Beacon). Only scores from these agencies are acceptable.
- Additional borrowers or guarantors on the loan must have at least one valid score of ≥ 640.
- The highest Representative Credit Score for all borrowers or guarantors is used as the qualifying score.

Tradelines

- 3 tradelines reporting for 12+ months, 2 tradelines reporting for 24+ months, or 1 tradeline (mortgage or installment) reporting for 36+ months. All require activity in the last 12 months.
  - No minimum tradeline requirement if credit report reflects scores from all 3 bureaus and qualifying score is 700+.
- All borrowers or guarantors must meet the minimum tradeline requirements. To qualify as a valid tradeline, the following requirements apply:
  - The credit line must be reflected on the borrower's credit report.
  - The account must have activity in the past 12 months and may be open or closed.
  - Tradelines used to qualify may not exceed 0x60 in the most recent 12 months.
- A 12- or 24-month housing history not reporting on credit may be used as a tradeline.
- Credit lines on which the borrower or guarantor is not obligated to make payments are not acceptable for establishing a minimum history.
  - Examples of unacceptable tradelines include loans in a deferment period, collection or charged-off accounts, accounts discharged through bankruptcy, and authorized user accounts.
  - Student loans can be counted as tradelines as long as they are in repayment and are not deferred.

Evidence of Primary Residence

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

Mortgage Rating:

- 0x30 for 12 months

Mortgage and Rental Payment Verification

- The following requirements apply for mortgage and rental verifications:
  - The mortgage/rental history on both the borrower's or guarantor's primary residence and the subject property are required (if applicable, i.e., refinance).
  - The mortgage/rental history for the primary and/or subject property must be current at time of application and closing.
  - Any derogatory mortgage history reporting on the credit report and/or provided within the loan file will be factored into the overall housing history rating and must be brought current.
  - Mortgage histories for other REOs not reporting on credit are not required.
  - Minimum application requirements include the disclosure of all borrower-owned or guarantor-owned REO and associated mortgages reporting on credit. PITIA from the subject property must be documented. PITIA from additional REO is not required to be verified.
- Mortgage and rental payments that are required to be verified but not reflected on the original credit report must be documented via an institutional Verification of Rent or Verification of Mortgage (VOR/VOM). A combined total of all late mortgage and rental payments in the past 12 months must be used to determine the housing history.
- If the borrower or guarantor is making payments to an individual or interested party, 12 months of cancelled checks or bank statements must be obtained. A VOR/VOM is not required but may be requested for clarification.

Rolling Late Payments:

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

Past Due Accounts:

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

Delinquent Credit Belonging to Ex-Spouse

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

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

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

Lawsuit/Pending Litigation

If the application, title, or credit documents reveal that the borrower or guarantor is presently involved in a lawsuit or pending litigation, a statement from the borrower's or guarantor's attorney is required.

- Statement must explain the circumstances of the lawsuit or litigation and discuss the borrower's or guarantor's liability and insurance coverage.
- The title company must be informed of the lawsuit or litigation and provide affirmative coverage of first lien position. Copy of the complaint and answer may also be needed.

Consumer Credit Counseling Service (CCCS)

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

Collections and Charge-Offs

The following accounts may remain open:

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

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

Judgments and Tax Liens

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

- The amount is the lessor of $5,000 per occurrence or 2% of the loan amount; or
- Judgments or liens have passed beyond the statute of limitations for that state (supporting documentation required); or

- The borrower or guarantor is currently in a repayment agreement with the creditor, and a minimum of 3 months has elapsed on the plan. Evidence of timely payments for the most recent 3 months to be provided.

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

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

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

Housing Events

- Housing Events must be seasoned for a minimum of 36 months from loan closing.
- A Housing Event is any one of the following events: Foreclosure; Deed-in-Lieu; Short Sale; Modification; 1x120 mortgage history
- Seasoning of a foreclosure, deed-in-lieu, or short sale is measured from the date of completed sale or final property transfer. The Housing Event must be completed prior to loan closing with no outstanding deficiency balance remaining.
- For a 120-day mortgage late, seasoning is from the date the mortgage was brought current. Seasoning for a modification is from the date the modification was executed.
- If the property was surrendered in a Chapter 7 bankruptcy, the bankruptcy discharge date is used for seasoning. Bankruptcy papers may be required to show the property was surrendered. The foreclosure action is not required to be fully complete.
- A mortgage modification resulting in any of the following attributes is subject to Housing Event seasoning guidelines:
  - Forgiveness of a portion of principal and/or interest on either the first or second mortgage
  - Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness
  - Conversion of any portion of the original mortgage debt to a "soft" subordinate mortgage
  - Conversion of any portion of the original mortgage debt from secured to unsecured

Bankruptcy:

- 36 months from discharge or dismissal date.

Ratios and Qualifying

DSCR

A Debt-Service Coverage Ratio (DSCR) must be calculated for the subject property. Minimum DSCR is 0.75.

- When DSCR 0.75 – 0.99, the following restrictions apply:
  - Short-term rental income is not allowed.
  - Vacant or unleased properties are ineligible for refinance transactions.
  - Rural properties are not eligible.

Long-Term Rental Income

Debt-Service Coverage Ratio = Gross Income ÷ Proposed PITIA

- To calculate Gross Income, use the lower of the (a) executed lease agreement or (b) market rent from FNMA Form 1007 or Form 1025, as applicable.
- If the executed lease agreement reflects a higher monthly rent, it may be used in the calculation when evidence of receipt of the higher amount for the 3 most recent consecutive months is provided.

Short-Term Rental Income

- Short-term term rentals are properties which are leased on a nightly, weekly, monthly, or seasonal basis. Short-term rental income received directly from a home-sharing service (such as Airbnb or VRBO) or property management service may be used for qualification.
- The following restrictions apply to all transactions utilizing short-term rental income:
  - DSCR ≥ 1.15.
  - 5% LTV reduction required (max 75% LTV).
  - Minimum 720 FICO.
  - First-Time Investors are not allowed.
  - Borrower must document short-term rental management experience in last 12 mos.
  - 2-4 unit properties and rural properties are not allowed.
- A Property Guard Short-Term Rental Compliance Report is required on all short-term rental transactions.
  - Report must confirm that the borrower has all permits necessary to operate the property as a short-term rental.
  - If a permit is required, a copy of the permit must be obtained on refinance transactions to ensure compliance with local regulations.
  - The report must confirm that the city, county, and state jurisdictions allow short-term rentals.
  - If the property may not be operated legally as a short-term rental, short-term rental income is not allowed.

Purchase Transactions Using Short-Term Rental Income

- Short-term rental income is allowed on purchase transactions. A FNMA Form 1007 is not required or utilized for rental income.
- In addition to the Property Guard Report, an AirDNA Property Earning Potential Report is required to determine monthly rental income utilizing the following information:
  - Occupancy Rate: minimum 60%
  - Annual Projected Revenue: amount used to calculate short-term rental income
- DSCR calculation for purchase transactions: Debt-Service Coverage Ratio = (AirDNA Projected Annual Revenue x 80%) / 12 ÷ Proposed PITIA

Refinance Transactions Using Short-Term Rental Income

- Short-term rental income is allowed on refinance transactions.
- In addition to the Property Guard Report, the following documentation must be provided:
  - 12 months evidence of receipt of short-term rental income via the home-sharing service, property management company, or bank statement deposits clearly evidencing short-term rental deposits.
  - Receipt must identify the subject property/unit and all rents collected for the previous 12 months. Rental income used is net of any management or vendor fees.
  - Bank statement deposits must be supported by rental records for subject property/unit to support the monthly rental activity for the previous 12 months.
  - Property ownership report obtained and proof of property listing on provider website.
- Appraisal Form 1007 or a short-term rental narrative prepared by the appraiser reflecting short-term market rents.
  - Short-term rental market data may include multiple sources such as Airbnb, VRBO, AirDNA, etc. AirDNA is acceptable when accompanied by additional sources listed above.
- The lower of the documented 12 months receipt average OR market rent will be used to calculate short-term rental income.
- DSCR calculation for refinance transactions: Debt-Service Coverage Ratio = Average Monthly Gross Income * 80% ÷ Proposed PITIA

Asset Analysis

Reserves

- Loan Amount ≤ $1,000,000: 3 months PITIA
- Loan Amount > $1,000,000: 6 months PITIA
- DSCR < 1.00: 6 months PITIA
- Reserves are not required for additional real estate owned.

Asset Documentation

Assets to be used for down payment, closing costs, debt payoff, and reserves must be seasoned for 30 days from closing date or sourced.

Assets must be verified with one of the following:

- Account statements for the most recent month or quarter indicating opening and closing balances and reflecting a consecutive 30 days of asset verification.

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

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

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, stocks and/or bonds, and 401(k) accounts. Funds secured against a Guarantor-owned business are prohibited.
- The terms of the secured loan and transfer of funds to the Guarantor should be documented. The individual providing the secured loan cannot be a party to the transaction.
- If the same financial asset is also used as part of the Guarantor's financial reserves, adequacy of the Guarantor'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. Business assets may come from either the Borrowing Entity or a secondary business owned by one or more of the borrowers or guarantors.
- If the assets being used are from a secondary business, the borrowers or guarantors on the loan must have a minimum of 25% ownership of the business and must be owners on the business account.
  - Ownership percentage must be documented via CPA letter, Operating Agreement, or equivalent.
  - All non-borrowing owners of the business must provide a signed and dated letter acknowledging the transaction and confirming the borrower's access to funds in the account.
- The balance of the business assets must be multiplied by the ownership percentage to determine the owner's portion of business assets allowed for the transaction.

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 Guarantor and the source of funds verified. Unverified funds are not acceptable.
- If the Guarantor does not hold the deposit account solely, all non-Guarantor parties on the account (excluding a non-borrowing spouse) must provide a written statement that the Guarantor has full access and use of the funds.

Earnest Money / Cash Deposit on Sales Contract

If earnest money is needed to meet the Guarantor's minimum contribution requirement, it must be verified that the funds are from an acceptable source. Virtual currency may not be used for earnest money.

Satisfactory documentation includes any of the following:

- Copy of the Guarantor'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 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 an processor's certification verifying with the bank the date the check cleared, the dollar amount of the check, and the individual providing the information.

Gift Funds

Gift funds can be used for down payment, closing costs, and reserves after the Borrowing Entity or Personal Guarantor has documented a 10% minimum own funds contribution.

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

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

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

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

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

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

A gift of equity is not eligible.

Foreign Assets

- All funds required for down payment, closing costs, and reserves must be seasoned for 60 days.
- 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 Guarantor previously or currently resides. It must also be established that the funds belonged to the Guarantor before the date of transfer.
- Funds required for closing (down payment and closing costs) must be seasoned in a U.S. depository institution for 30 days prior to closing.
- 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.

Interested Party Contributions

Interested party contributions may not exceed 6%. Percentage is based on 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.

Sales concessions include:

- Financing concessions in excess of 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.

Like-Kind Exchange (1031 Exchange)

Like-Kind Exchanges Assets for the down payment from a "like-kind exchange," also known as a 1031 exchange, are eligible if properly documented and in compliance with Internal Revenue Code Section 1031.

Reverse 1031 Exchange is not eligible.

Net Proceeds from Sale of Real Estate

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

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. PwrTPO must verify the ownership of the account, and the account must

be vested and allow withdrawals regardless of current employment status. 70% of the vested balance may be used.
- If the retirement assets are in the form of stocks, bonds, or mutual funds, the account must meet the requirements in 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.

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:

- Guarantor'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
- Guarantor's receipt of the sale proceeds from documents such as deposit slips, bank statements, or copies of the purchaser's canceled check

Stock Options

Vested stock options are an acceptable source of funds for down payment and closing costs when immediately available to the Guarantor. 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 Guarantor'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 amount of funds needed for the down payment and closing costs, no documentation of the Guarantor's actual receipt of funds realized from the sale or liquidation is required. Otherwise, evidence of the Guarantor'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.

Subordinate Financing

Not allowed.

Trust Accounts

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

Virtual Currency

- Virtual currency that has been exchanged into U.S. dollars is acceptable for the down payment, closing costs, and reserves provided the following requirements are met:
  - There is documented evidence that the virtual currency has been exchanged into U.S. dollars and is held in a U.S. or state regulated financial institution, and
  - The funds are verified in U.S. dollars prior to the loan closing.
- A large deposit may be from virtual currency that was exchanged into U.S. dollars. Sufficient documentation must be obtained to verify the funds originated from the borrower's virtual currency account.
- Virtual currency may not be used for earnest money for the purchase of the subject property.
- **Note:** Payment on any debt secured by virtual currency must be included when calculating the debt-to-income ratio.

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
- Proceeds of SBA/PPP loans or any other government assistance
- Gift of equity

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 seller is responsible for all of the following:

- The accuracy and completeness of the appraisal and its assessment of the marketability of the property
- Underwriting the completed appraisal report to determine whether the subject property presents adequate collateral for the mortgage
- Continually evaluating the quality of the appraiser's work through normal underwriting review of all appraisal reports and spot-check field review of appraisals as part of its quality control program
- 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

Uniform Residential Appraisal Report (URAR)

Appraisal Forms:

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, when applicable:

- 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 comparables 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 comparables used with more than one sale or transfer in the 12 months prior to the effective date of the appraisal.
- 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 assumptions and 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.

Transferred Appraisals:

Transferred appraisals are only allowed when the seller has received approval from PwrTPO in advance for their appraisal transfer policy in order to ensure compliance with the Home Valuation Code of Conduct (HVCC) and Appraiser Independence Requirements.

Age of Appraisal and Appraisal Updates:

- Properties must be appraised within the 12 months that precede the date of the note and mortgage.
- When an appraisal report will be more than 4 months old 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), with an exterior photo of the front of the subject property. Interior photos are also required if the appraisal was completed 'subject to completion' or 'subject to repairs.'
    - 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.
- **Note:** The appraisal update must occur within the 4 months that precede the date of the note and mortgage.
- The original appraiser should complete the appraisal update; however, substitute appraisers may be used.
    - 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 file must be noted as to why the original appraiser was not used.

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
- Contain a minimum of 500 square feet of gross living area
- Bedroom(s) are separate from the main living area.
- 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
- Must have a remaining economic life of 30 years

Property Location

See the PwrTPO product-specific matrices. Subject property must be subject to the laws of the state in which the loan is made.

Eligible Property Types

- SFR
- PUD
- Townhome
- Condos
- 2-4 Units

Ineligible Property Types

- Agricultural or Commercial Zoned
- Assisted Living/Continuing Care Facilities
- Boarding House
- Condotels or Condo Hotels
- Co-operative Units
- Farms or Hobby Farms
- Log Homes
- Manufactured Homes
- Mixed-Use Properties
- Modular Homes
- Properties Subject to Rent Control Regulations
- Row Homes
- Shared Housing and/or Student Housing
- Single Room Occupancy (SRO)
- Unique Properties (Earth Homes, Berm Homes, Dome Homes, Barndominiums, Shouses, Geodomes, etc.)

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.

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 comparables sales dated within 6 months from the report date.
- Comparables 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 comparables 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. If the appraisal indicates the property is located within a declining market, a 5% LTV reduction is required.

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 conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus.

- A minimum of 3 closed comparables 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 comparables should be recently closed sales
- In instances where comparables conforming to the criteria stated above cannot be used, the appraiser must clearly justify reasons for alternate comparables.

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 35%, an explanation from the appraiser may be required to demonstrate conformance with neighboring properties. 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

All transactions require a Clear Capital CDA (or like product), field review, or FNMA Collateral Underwriter/FHLMC Loan Collateral Advisor Review with a score of 2.5 or less (must include a copy of the Submission Summary Report).

- The following transactions require a 2nd full appraisal in lieu of an appraisal review product listed above:
  - Loan amounts > $2,000,000
  - Cash-out transactions with loan amounts > $1,500,000

Appraisal Review Tolerance:

- A 10% tolerance is permitted for all secondary review products.
- If the review product does not provide a value, an additional review product of a higher-level must be ordered.
- If the review product value is more than 10% below the appraised value, the lower of the two values must be used.
  - If the tolerance is exceeded, the seller 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 review product value is higher than the original appraised value, the original appraisal value should be used.
  - If two appraisals are required, the lower of the two values or the purchase price must be used.

Accessory Dwelling Units

Properties with 1–2 ADUs are eligible if all of the following apply:

- Property is a SFR, 2-unit, or 3-unit.
- Maximum 2 ADUs allowed; total units (primary + ADUs) cannot exceed 4.
- Appraisal includes 2 comparable properties within 5 miles with the same number of permitted ADUs.
- Appraisal confirms ADUs are legally permitted and common for the market area.
- Each ADU must be at least 500 square feet.

Rental income is allowed, subject to the following:

- Market rent must be supported by an appraiser's market rent survey.
  - **Purchase:** Borrower provides signed letter of intent to rent ADUs.
  - **Refinance:** Provide current lease and 1 month rent receipt.
- See Ratios and Qualifying for additional guidance on rental income calculation.

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.

Deed Restrictions

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

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.

Disaster Areas

Identifying Disaster Areas:

- Sellers are 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 https://www.fema.gov/disaster.
- 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.

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 of 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 or 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)

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.

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

Not allowed.

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.

Leasehold Appraisal Requirements

Leasehold:

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.

Appraisal Requirements for Leasehold Interests:

- 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.
- 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 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:

The appraiser must be knowledgeable and experienced in the appraisal techniques necessary to appraise a property subject to a leasehold estate held by 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 appraiser must use a three-step process to develop an opinion of value:

- Step 1: Determine the fee simple value of the property by using the sales comparison analysis approach to value.
- Step 2: Determine the applicable capitalization rate and convert the income from the ground lease into a leased fee value by using the market-derived capitalization rate.
- Step 3: Determine the leasehold value by reducing the fee simple value by the lease fee value.

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)

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 Dwelling 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.
- 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

- 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 for new construction 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 when 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 and Acreage

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

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

Rural properties must comply with all of the following criteria:

- Maximum acreage is 10 acres (including road frontage and subject property) with no agricultural and/or farm use.
- Purchase transactions only.
- Long-term rental income only.
- DSCR > 1.0.
- Max 65% LTV.
- Single Family Residences and condominiums only.
- Residential use only. Properties that are zoned agricultural or commercial are not eligible.
- Property must be located in a market where rental properties are prevalent. Locations may include but are not limited to mountain towns, beach communities, waterfront properties, or other tourist/recreational destinations.

- At least two comparable recent sales and rentals must be located within 5 miles of subject Property.
- Property may not provide an agricultural source of income to the borrower.
- Lot size and acreage must be typical for the area and similar to surrounding properties.
- Property cannot be subject to idle acreage tax benefit or other tax incentive program.
- Present use as per the appraisal must be the "highest and best use" for the property.
- Condition, quality, and use of outbuildings should be considered in determining the market value of the subject property when the appraiser clearly supports the adjustments with similar comparable information.

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

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 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 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:
  - 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.

- 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.
- 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 60 days old on the date of closing. If new construction, the report may be 1-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. Residential properties that are zoned agricultural or commercial are not eligible.
- 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. Except as stated above, properties with land-use restrictions which prohibit the reconstruction to maintenance the dwelling are ineligible.

Condominiums

<u>Definitions of Established and New Condominiums:</u>

Specific eligibility criteria are dependent upon whether the condo project reviewed is classified as established or new.

Established condominium projects meet the following criteria:

- At least 90% of the total units in the project have been conveyed to the unit purchasers
- Project is 100% complete, including all units and common elements
- Project is not subject to additional phasing or annexation
- Control of the HOA has been turned over to the unit owners

New condominium projects meet the following criteria:

- Fewer than 90% of the total units in the project have been conveyed to the unit purchasers
- The project is not fully completed, such as proposed construction, new construction, or the proposed or incomplete conversion of an existing building to a condo
- The project is newly converted
- The project is subject to additional phasing or annexation

General Condominium Requirements:

All condominium projects must meet the following requirements:

- All common areas and amenities within the project or subject phase must be complete.
- Subject unit must have at least 600 square feet of living space.
- The sustainability, marketability and financial stability of the project must be supported.
- Project must be located in an area where acceptability of condominium ownership is demonstrated.
- The project must be in compliance with all applicable state or local laws. The homeowners' association must be incorporated in the state where the project is located.
- Condo projects must have acceptable insurance coverage.
- An environmental hazard assessment is required for condo projects if an environmental problem is identified through performance underwriting or due diligence. The solution must be deemed acceptable by PwrTPO.
- Projects with pending or threatened litigation are typically ineligible.
- The project must be located on one contiguous parcel of land. The project may be divided by a public street.
- The structures within the project must be within a reasonable distance from each other. Common elements and facilities, such as recreational facilities and parking, must be consistent with the nature of the project and competitive in the marketplace.
- All programs are limited to a maximum number of units purchased by PwrTPO within one project of 20% or 20 loans, whichever is less.

Condominium Project Reviews:

A valid project review is required for all condominium transactions, along with a completed PwrTPO Condominium Project Questionnaire (or equivalent form). The Condominium Project Questionnaire may not be greater than 120 days old at the time of closing.

The project review methods below should be utilized to determine the acceptability of a condominium project:

- PERS (Project Eligibility Review Service): Projects with Fannie Mae PERS approvals are acceptable. Projects must also meet the General Condominium Requirements and may not be an Ineligible Project.

A PERS approval is valid for 18 months from the date of issue and must be valid as of the note date. New projects are acceptable only with a PERS approval.

- FHA Approved Condominiums: Projects with FHA condo approvals are acceptable and can be verified on the HUD website. Projects must also meet the General Condominium Requirements and may not be an Ineligible Project. An FHA condo approval must be valid as of the date of the note.
- Condominium Project Questionnaire Review: For all established condominium projects without valid PERS or FHA approvals, or for projects that do not meet all the requirements of the various project review methods, a Condominium Project Questionnaire Review is required. The completed PwrTPO Mortgage Condominium Project Questionnaire (or equivalent form) must reflect compliance with the following requirements:
    - Project must meet the definition of an established condo.
    - For investment property transactions only, at least 50% of the total units in the project must be conveyed to purchasers as primary or second homes.
    - No more than 15% of the total units in a project may be 60 days or more past due on their HOA dues.
    - No single entity, the same individual, investor group, partnership, or corporation may own more than 20% of the total units in the project. For projects with 1-4 total units, single entity ownership may not exceed 1 unit. For 5–20-unit projects, single entity ownership may not exceed 2 units.
    - No more than 35% of the total square footage of the project may be used for commercial purposes.
    - Mortgagee may not be responsible for more than the greater of 6 months or the maximum amount permitted under applicable state law of delinquent HOA dues. For condos in Florida, the first mortgagee's liability for dues assessed prior to its acquisition of title is limited to the lesser of 12 months' assessments or 1% of the original mortgage debt.
    - All facilities related to the project must be owned by the unit owners or the HOA cannot be subject to a lease between the unit owners or HOA and another party.

Condominium Conversions:

A condominium conversion is the conversion of an existing building to a condominium project. Project conversions legally created in the past 3 years are not allowed.

Site Condos:

- 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 may be documented on either FNMA Form 1004 or FNMA Form 1073. The appraiser should include an adequate description of the project, information about the homeowners' association fees, and note the quality of the project maintenance.

Ineligible Condominium Projects:

- Projects comprised of manufactured homes
- Projects with units used for 'live-work'
- Projects managed and operated as a hotel or motel
- Projects containing the word hotel or motel in the name

- Projects that restrict the owner's ability to occupy the unit
- Projects with mandatory rental pooling agreements that require unit owners to either rent their units or give a management firm control over unit occupancy
- Projects with non-incidental business operations owned or operated by the homeowners' association (such as a restaurant, spa, health club, etc.)
- Common interest apartments
- Fractional ownership projects
- Timeshare or segmented ownership projects
- Continuing Care Retirement Communities or Life Care Facilities
- Multi-unit dwelling condos that permit an owner to hold title to more than one dwelling unit, with ownership of all of his or her owned units evidenced by a single deed and financed by a single mortgage

Property Insurance

Hazard Insurance

The property insurance coverage amount for a first mortgage secured by a 1–4-unit property is at least equal to the lesser of:

- 100% of the replacement cost value of the improvements as of the current property insurance policy effective date, *or*
- The unpaid principal balance of the loan, provided it equals no less than 80% of the replacement cost value of the improvements as of the current property insurance policy effective date.

Condominium units must meet Fannie Mae requirements. If not covered by the condominium master policy, the borrower(s) must maintain HO-6 insurance to cover interior improvements, including flooring, wall coverings, cabinetry, fixtures, built-ins and any unit upgrades.

Policy Requirements

Hazard insurance policies must meet Fannie Mae guidelines and the following specific requirements:

- Deductibles must not exceed 5% of the policy’s face value.
- The policy must:
  - Include the borrower’s name, insurance agent’s name and company, and the full subject property address.
  - Be effective as of the loan closing date.
- Proof of premium payment must be documented in the mortgage file:
  - **Purchase transactions:** Premium must be paid in full for 1 year from the acquisition date.
  - **Refinance transactions:** Policy must be effective for at least 60 days beyond the loan date.

Insurance Carrier Requirements

The hazard insurance policy must be underwritten by a carrier that meets one of the following rating standards:

- A.M. Best Company, Inc.: Rated B or better.
- Demotech, Inc.: Rated A or better on the Hazard Insurance Financial Stability list.
- Standard & Poor’s: Rated BBB or better in the Insurer Financial Strength Rating.

Carriers not rated by any of the above agencies are not eligible, and their policies may not be used to satisfy hazard insurance requirements.

Condominium and PUD Project Insurance Requirements

Minimum Hazard Insurance Coverage:

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.

Acceptable policies must provide coverage for either an individual project or multiple affiliated projects. 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.

PUD Requirements:

- Individual insurance policies are required for each unit mortgage in the PUD project. If the project's legal documents allow for blanket insurance policies to cover both the individual units and the common elements, blanket policies are acceptable to satisfy insurance requirements for the units.
- When units located within a PUD are covered by individual property insurance policies maintained by their respective owner(s), verification of master property insurance coverage on PUD common elements is not required.

Condo Requirements:

- The entire condo project insurance policy must be reviewed to ensure the HOA maintains a master or blanket type of insurance policy, with premiums being paid as a common expense.
- If the unit interior improvements are not included under the terms of the condominium policy, the borrower is required to have a HO-6 hazard policy ("wall-in coverage"), which is sufficient to repair the condo unit to its condition prior to a loss claim event.
- The policy must require the insurer to notify in writing the HOA (or insurance trustee) and each first mortgage loan holder named in the mortgagee clause at least 10 days before it cancels or substantially changes a condo project's coverage.

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:

- The homeowners' association must maintain 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.
- The policy should provide for at least ten days' written notice to the owners' association before the insurer can cancel or substantially modify it. For condominium projects, similar notice must also be given to each holder of a first mortgage or share loan on an individual unit in the project.

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 reserves or minimum required by state law.
- Coverage is not required when the calculated amount is $5,000 or less.

Flood Insurance

The file must contain a flood determination certificate to identify whether the subject property is located in a Special Flood Hazard Area (SFHA) as designated by FEMA.

Flood Insurance Requirement

If the property is located in an SFHA (Flood Zone A or V), flood insurance is required for the loan to be eligible.

- Required coverage must be the **lesser** of:
  - The full replacement cost of the improvements, *or*
  - The maximum coverage available under the National Flood Insurance Program (NFIP).
  - Flood insurance escrows are required for properties in Special Flood Hazard Areas (SFHAs), unless flood insurance is provided by a condominium association, HOA or similar entity.

Policy Requirements

Flood insurance must meet Fannie Mae guidelines and the following requirements:

- Deductibles must not exceed the maximum allowed under the NFIP.
- The policy must include:
  - The borrower's name.
  - The subject property address.
  - A mortgagee clause naming PwrTPO and its assignees as loss payee.
- Evidence of coverage must be provided.

Waiver of Flood Insurance

Flood insurance may be waived under either of the following conditions:

- The improvements on the subject property are not located in the SFHA, even if part of the land is.
- The borrower provides a FEMA Letter of Map Amendment (LOMA) confirming the property is no longer in a Special Flood Hazard Area.

Rent Loss Insurance

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

Title Insurance

Title Policy Requirements

Title Insurance or Title Guaranty Policy

The subject property must be covered by a title insurance policy that protects the mortgagee and its successors and assignees. The policy must:

- Be in an amount equal to or greater than the loan amount.
- Be dated within 90 days of the loan closing.
- Comply with Fannie Mae title insurance requirements and the following:

General Requirements

- The title insurer must be licensed in the state where the property is located.
- The premium must be paid in full prior to disbursement of loan proceeds.
- The policy must be in force and non-cancelable.
- Acceptable policy forms include:
    - 2006 ALTA standard form.
    - ALTA short form.
    - ALTA form with state-required amendments (where 2006 ALTA is not adopted).
- Must include an Environmental Protection Lien Endorsement (ALTA 8.1-06 or state equivalent).
- Title report must include a 24-month chain of title, prepared within 90 days of the loan date showing:
    - Transfer dates.
    - Names of buyers and sellers for all conveyances within the past 24 months.
- The borrower’s name on the title commitment must exactly match the name on the note and mortgage (no spelling, middle name, or title discrepancies).
- Any discrepancy in marital status between the title and the 1003 must be addressed.
- A Closing Protection Letter (CPL) must be provided, covering the settlement agent’s errors, omissions, fraud, theft and embezzlement.
- Title insurance must include gap coverage for liens and ownership transfers from the loan date to the recording of the security instrument.
- The following are not permitted:
    - UCC filings or easements that impair title.
    - Unpaid tax or mechanic’s liens (must be cleared through escrow).
    - No open permits for renovations or code violations are allowed at closing.

Additional Requirements for Condominium Units

If the insured property is a condominium unit, the title policy must also include:

- ALTA 4-06 or 4.1-06 endorsement (or state equivalent).
- Coverage for HOA ownership of common areas or facilities (if applicable).
- Assurance that:
  - The mortgage is superior to any lien for unpaid common expense assessments.
  - Title is not impaired by violations of covenants, conditions or restrictions in the master deed.
  - The unit does not encroach on another unit or common areas.
  - The mortgage is secured by a legally created condominium unit.
  - Real estate taxes are assessed only against the unit and its undivided interest in the common elements — not the entire project.

Title Exceptions

The following title exceptions are acceptable, provided they also comply with Fannie Mae's title insurance requirements:

- Customary public utility subsurface easements with fixed, verifiable locations.
- Above-surface public utility easements along property lines (not exceeding 12 feet) that:
  - Do not interfere with buildings or improvements.
  - Do not impair property use.
  - Do not result in forfeiture, reversion of title, liens or adverse market value impact.
- Mutual easement agreements for shared driveways or party walls, provided all future owners retain unrestricted use.
- Encroachments by adjoining property improvements that:
  - Extend no more than 1 foot over the property line.
  - Cover no more than 50 square feet.
  - Do not come in contact with buildings or interfere with property use.
- Encroachments by hedges or removable fences.
- Liens for real estate taxes or assessments not yet due and payable.
- Outstanding oil, water or mineral rights, provided they do not materially alter the property's contour or impair its value or intended use.

Survey Requirements

- If surveys are not customary in a jurisdiction, an ALTA 9 Endorsement must be provided.
- If neither a survey nor an endorsement is customary, the title policy must not include a survey exception.

Power of Attorney (POA)

A Power of Attorney being used at closing must be submitted as early as possible in the loan process for review and approval. A Power of Attorney only for purchase transactions, provided the following conditions are met:

- The POA does not limit or restrict title insurance in any way.

POA Requirements

- Must comply with all applicable state laws.
- It must be specific to the loan closing and, if applicable, the related property purchase.
- Must be recorded with the Mortgage/Deed of Trust, unless prohibited or not customary in the jurisdiction.
- Must be executed by the borrower who signed the initial loan application (Form 1003).
- Final loan documents may not be signed/executed under a Power of Attorney on behalf of a Guarantor when Title will vest in a U.S.-based entity Limited Liability Corporation.

- Must be granted to a party with no involvement in the loan origination or property transaction, except as a borrower or borrower's representative.
    - Ineligible POA agents include the seller, real estate agent, title agent or employees of the originating lender or its affiliates.

Electronic Signatures

Electronic signatures (e-Signatures) are not permitted on documents that:

- Require handwritten signatures due to legal, notarial or recording requirements.
- Are related to real property transfers or the security interest in the property.

Documents Not Eligible for e-Signatures

- Promissory note (eNotes not allowed).
- Mortgage/Deed of Trust.
- Notarized documents.
- Documents signed using a Power of Attorney.
- Trust documents requiring recording.

Escrow (Impound Account)

- 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 or an escrow waiver has been elected (non-HPML loans). One twelfth (1/12) of the annual premiums are to be paid with the principal and interest payments.
- Escrow accounts must be established for flood insurance when the subject property is determined to be in a flood zone. Escrow waiver for flood insurance is not permitted.

Prepayment Penalties

Prepayment penalties (PPPs) are acceptable as applicable to federal and state laws, regulations and restrictions. While not required, loans without a PPP may be subject to pricing adjustments.

Standard Prepayment Penalty Structures

- 5% Flat Fee
    - PPP Term: 0 to 5 years

Note: Prepayment penalties are not permitted in certain states. Refer to the Prepayment Penalty Matrix found in Resources > Job Aids & Worksheets