ONITY® FlexIQ

f/k/a PHH Mortgage Corporation

FlexIQ Non-Agency

Underwriting Standard

Correspondent Lending | Delegated and Non-Delegated

Version 1.1

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Confidential and proprietary. This Standard is to be used together with the FlexIQ Product Descriptions, the Program Matrices and the Correspondent Seller Guide, including the Non-Agency Addendum. The version in effect on the rate lock date governs the loan.

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1. Introduction

This FlexIQ Non-Agency Underwriting Standard establishes the requirements for underwriting and delivery of all FlexIQ Non-Agency loans to Onity Mortgage Corporation. It applies to Full Documentation, Alternative Documentation, Asset Qualification, and Debt Service Coverage Ratio (DSCR) transactions.

These underwriting guidelines establish a criteria of eligibility standards used in evaluating residential loan applications for the origination of loans to mortgagors who do not generally qualify for or choose not to use traditional agency, government, or private label non-agency jumbo products.

This Standard is to be used together with the individual Product Description and the applicable Program Matrix. Where a Product Description differs from this Standard, this Standard governs. The Program Matrix establishes all LTV/CLTV, credit score, loan amount, DSCR, DTI, and reserve parameters.

All loans submitted to Onity Mortgage Corporation must meet the current published guidelines as of the lock date on Delegated and Non-Delegated loans. A rate lock commitment must be entered into for each loan prior to delivering it to Onity Mortgage Corporation, and Delegated loans must be locked prior to the closed loan being submitted for review. Loans that are relocked must meet all current product eligibility guidelines as of the relock date. A loan that is cancelled or withdrawn ceases to be guideline protected; a reinstated loan is re-registered and is subject to the guidelines in effect at re-registration. Refer to the Correspondent Seller Guide Non-Agency Addendum, Sections A4.1, A4.5 and A6.1.

All DSCR program parameters are published on the FlexIQ Non-Agency DSCR Program Matrix (Section 10.1).

Where FlexIQ Guides are silent, refer to Fannie Mae guidelines for requirements not addressed in this Standard. Where this Standard states a requirement that differs from Fannie Mae, this Standard applies, including where this Standard permits an item Fannie Mae does not.

1.1. General Eligibility Standard

All loans must be manually underwritten. AUS is not permitted as the basis of the credit decision.

The Form 1008, the Seller's underwriting approval document, or a separate certification for every loan must certify that the subject loan does not qualify for delivery to the agencies (Fannie Mae/Freddie Mac/Ginnie Mae).

The originator must represent and warrant that the origination of the loan complies with all applicable rules, laws and regulations, including, without limitation, related to the Borrowers' ability to repay the Loan, including the regulations of the Consumer Financial Protection Bureau, as applicable. Representations and warranties are governed by the Correspondent Seller Guide, Section 2.9.1, and the Non-Agency Addendum, Section A2.2.

1.1.1. Fraud and Misrepresentation

Onity Mortgage Corporation has a zero-tolerance policy as it relates to fraud or misrepresentation in a mortgage loan transaction. The client is responsible for the content and quality of each application. Any loan with fraud or misrepresentation must be repurchased. The submission of a loan application containing information that is false or misrepresented is a federal crime. If there is sufficient information established to confirm a Client participated in the misrepresentation, the business relationship with the Client will be terminated immediately, including all Loans in the Onity Mortgage Corporation pipeline from the Client.

All loans must be submitted to an automated third-party fraud and data check tool that at a minimum includes OFAC screening and Background check (i.e. Fraud Guard, Corelogic, DataVerify's DRIVE, etc.). A copy of the findings report must be included in the loan file. All red flags and inconsistencies must be resolved and the supporting documentation clearing the deficiencies are to be provided as well.

Do not close with an unresolved red flag or high alert.

1.2. Underwriter Criteria

These underwriting guidelines are intended to reference and supplement Fannie Mae's Seller Guide. Standard Fannie Mae documents should be used where one exists.

All aspects of the loan will be evaluated, including the borrower's willingness and ability to repay the loan in a timely manner. This review will involve, but is not limited to, the borrower's credit history, asset position, income/cash flow and review of the property used for collateral.

The reason(s) for choosing a Non-Agency product must be stated on a certification, the Form 1008, or the Seller's underwriting approval document; any one of these documents satisfies this requirement. If appropriate, in addition to that statement, a copy of the AUS results from the GSE showing anything other than "approve/eligible" may be used as further proof the loan was not eligible to the GSE (this cannot be used solely to prove the loan was not eligible for sale/securitization to the GSE).

1.3. Exceptions & Items Not Addressed in this Guide

Any specific criteria or guideline question that is not covered herein or in Fannie Mae guidelines may be submitted to Onity Mortgage Corporation's Non-Agency Deal Desk by submitting a request in TPO Connect.

All exceptions will be reviewed on a case-by-case basis. Exception requests should exhibit strong compensating factors. Onity Mortgage Corporation's decision to allow or deny any exception is based on the information provided at the time of request; any material change(s) that become manifest during the processing and underwriting of the case may result in disqualification of the granted exception as originally submitted; therefore, exception decisions do not bind Onity Mortgage Corporation to extend credit to the borrower or to purchase the loan. Exceptions should be submitted through the Non-Agency Deal Desk on the Exception Request Form (Exhibit 12.10) or a similar form.

The following compensating factors are considered; the values stated are the levels at which a factor is considered strong.

Compensating Factors	Value
FICO	At least 20 points above guideline requirement.
LTV	At least 5 percentage points below the max LTV.
Reserves	At least 6 months above guideline requirement.
DTI	At least 5 percentage points below the max DTI.
Income	Residual Income at least two (2) times the minimum requirement, or stable ancillary income for the borrower that is not being used for qualifying.
DSCR score	At least 0.25 above guideline requirement.
Housing Payment History	At least 12 months above guideline requirement.
Payment Shock	Negative payment shock (i.e., PITIA is reducing).
Employment	More than 5 years with the current employer.
Investor Experience	More than 5 years owning and managing investment property.

There is no separate payment shock test. Payment shock is a compensating factor where negative. A loan may not be declined on payment shock alone.

1.4. Re-Application Process

A loan that has been declined may be re-submitted where the condition giving rise to the decline has been cured and the cure is documented. The re-submission must identify the prior decline and the specific change relied upon.

All documentation must meet the Age of Documentation requirements in Sections 5.1, 6.2, and 8.2 as of the note date of the re-submitted transaction.

Borrower removal. If a borrower is removed from a transaction, adverse action is required so the removed borrower is notified. A new loan may be registered with the revised borrowers.

Borrower addition. A borrower may be added to a transaction without cancelling the current loan when processed as a documented change of circumstance.

Documentation change. A loan that changes from Full Documentation to Alternative Documentation, Asset Qualification, or another reduced documentation method must be cancelled and a new loan registered under the applicable documentation type.

1.5. Compliance with all Laws & Regulations

1.5.1. TILA-RESPA Integrated Disclosure (TRID)

All loans must comply with TRID rules except for Business Purpose Loans, as defined below, that are originated solely for business purposes, as defined in 12 CFR 1026.3(a)(1) of Regulation Z.

As used in this Guide, a "Business Purpose Loan" means a loan:

- **Non-Owner Occupied:** To acquire, improve or maintain rental property (regardless of the number of housing units) that is not owner-occupied. This includes, for example, a single-family house that will be rented to another person to live in.

All DSCR loans are "Business Purpose Loans"; therefore, to be eligible for the product, the property may not be occupied by the borrower, any member of the borrower's family, or any owner of a borrowing entity at any time and under any circumstance and all cash out proceeds must only be used for business purposes (e.g., acquisition/maintenance/improvement of rental properties).

A loan is not a Business Purpose Loan where either of the following conditions is present:

- The borrower, a member of the borrower's family, or an owner of the borrowing entity occupies or intends to occupy the property at any time.

- Any portion of cash-out proceeds is used for personal, family, or household purposes.

Where either condition is present on a Full Documentation, Alternative Documentation, or Asset Qualification loan originated without TRID disclosures, the loan must be declined and a new application taken as a consumer-purpose transaction with TRID disclosures; the condition cannot be cured by affidavit, letter of explanation, or re-disclosure on the existing application. Where either condition is present on a loan originated with TRID disclosures, the loan proceeds as a consumer-purpose investment property loan. DSCR loans are Business Purpose Loans only; a DSCR loan that fails either condition is ineligible under Section 10.2.

A loan may proceed as a consumer-purpose investment property loan only where every TRID requirement, including the content and timing of the Loan Estimate and Closing Disclosure, was met from the initial application forward. A loan on which TRID requirements were not met throughout is not compliant and is not eligible for purchase; the only cure is to decline the loan and take a new application as a consumer-purpose transaction.

Payoff of subordinate liens on a Business Purpose Loan. Whether a transaction is a Rate Term Refinance or a Cash-out Refinance is determined under Sections 3.2.1 and 3.4. The following determines whether the payoff of a subordinate lien is a business purpose use of proceeds:

- Payoff of a purchase-money subordinate lien on the subject investment property is a business purpose use of proceeds. No further documentation is required.
- Payoff of a subordinate lien obtained after acquisition is a business purpose use of proceeds only where the subordinate lien has been seasoned a minimum of six (6) months from its note date to the note date of the new loan AND the file documents that the proceeds of the subordinate lien were used for business purposes. Acceptable documentation includes paid invoices for work or expenses relating to the subject property or another investment property, an appraisal or inspection identifying improvements completed on the subject property during the period following the subordinate lien, or a closing statement for the acquisition of another investment property.
- Where a subordinate lien obtained after acquisition does not meet both conditions, its payoff is not a business purpose use of proceeds and the loan is not a Business Purpose Loan. The loan may proceed as a consumer-purpose investment property loan where the TRID requirements above are met, or must be declined and a new consumer-purpose application taken; on DSCR the loan is ineligible.

Evidence of Business Purpose. Every Business Purpose Loan, whether DSCR, Full/Alternative Documentation, or Asset Qualification, must contain all of the following, each consistent with the others:

- A Business Purpose and Occupancy Affidavit (Exhibit 12.5) or a similar form, signed by each borrower and guarantor, stating without qualification that the loan is for business purposes and that no borrower, guarantor, member of a borrower's family, or owner of the borrowing entity occupies or will occupy the property, and stating a primary residence address that differs from the subject property. The Affidavit must be executed by each borrower and guarantor at least once, at any time prior to or at closing, and must be in the loan file at delivery.
- A final Form 1003 on which each borrower's current residence is an address other than the subject property.
- An appraisal identifying the property as tenant-occupied, vacant, or investor-owned, consistent with the underwritten occupancy; on a purchase, occupancy by the property seller at the time of inspection is consistent with investment occupancy. An appraisal indicating occupancy by the borrower, a member of the borrower's family, or an owner of the borrowing entity makes the loan ineligible as a Business Purpose Loan.
- Evidence of hazard insurance written as a landlord, rental-dwelling, or investor policy, not a homeowner's policy.
- Executed lease(s) or a rent roll where the property is leased; a borrower letter of explanation stating the rental intent where vacant.
- On cash-out transactions, proceeds used only for business purposes as described in this Section, and a signed borrower letter stating the intended use of the cash-out proceeds (Section 3.4.2).

Regulatory treatment. Business Purpose Loans are not subject to ability-to-repay or TRID disclosure requirements. Consumer-purpose investment property loans remain subject to ability-to-repay and TRID disclosure requirements. Neither is subject to HOEPA, which applies only to loans secured by the consumer's principal dwelling (Section 1.5.2).

1.5.2. Home Ownership and Equity Protection Act (HOEPA)

Loans secured by the consumer's principal dwelling that meet the definition of a "high-cost loan" under HOEPA (Regulation Z, 12 CFR 1026.32) or other state local "high cost" or other predatory lending regulations are ineligible. Specifically, the "annual percentage rate" or "total points and fees" (as each such term is defined under HOEPA) payable by the mortgagor on such transactions may not equal or exceed the applicable thresholds as defined under HOEPA (12 CFR 1026.32(a)(1)(i) and (ii)). Regardless of if the originator is exempted from state/local "high cost" regulations, loans exceeding any state or local "high cost" laws are ineligible.

The following types of programs/loans are exempt from HOEPA and its points and fees limitations: (i) business purpose loans; (ii) loans originated under the DSCR Program; or (iii) loans secured by a dwelling other than the consumer's principal dwelling (e.g., investment Properties and Second Homes).

As there are a handful of states that oversee business purpose loans, we recommend Sellers run an industry compliance tool to check for any such rules and comply with the corresponding results. Onity Mortgage Corporation will not purchase a loan labeled as High Cost or predatory under state laws.

Additionally, as all loans under our guidelines are purchased as non-QM, QM points and fees and Fannie Mae or Freddie Mac High-Cost limits are not imposed. Consumer-purpose loans secured by the consumer's principal dwelling are subject to HOEPA and to federal and state points and fees limitations; consumer-purpose loans secured by a second home or investment property remain subject to any applicable state points and fees limitations. Onity Mortgage Corporation will not purchase a loan labeled as High Cost or predatory under federal or state laws.

1.5.3. Higher Priced Mortgage Loans (HPML)

Definition. A loan is a Higher Priced Mortgage Loan where the APR exceeds the Average Prime Offer Rate (APOR) for a comparable transaction by the following, on a loan secured by a primary residence:

Loan Amount	Threshold
Conforming	APR is 1.5 percentage points or more above APOR
Non-conforming	APR is 2.5 percentage points or more above APOR

HPML transactions are permitted.

Requirements applicable to every HPML transaction. All of the following apply and none may be waived.

Requirement	Standard
Escrow account	An escrow account for property taxes, hazard insurance, and flood insurance (where flood insurance is required) must be established at consummation and maintained for a minimum of five (5) years. The escrow waiver in Section 2.6 is not available on an HPML transaction.
Appraisal	A full interior and exterior appraisal by an appraiser meeting Section 9.2.1 is required. The borrower must be provided a free copy of the appraisal no later than three (3) business days prior to consummation.
Second appraisal — flip transactions	Where the subject is a primary residence and the property is being resold within 180 days of the seller's acquisition date with a price increase meeting the thresholds in Section 3.1.2.2, a second appraisal is required. **The borrower may not be charged for the cost of the second appraisal.**
Ability to Repay	The loan must satisfy the ATR standard in Section 1.5.4.
Residual income	Required. Refer to Section 7.1.
Prepayment penalty	Not permitted on an HPML secured by a primary residence. Refer to Section 2.5.

The loan file must evidence the APOR threshold test on every primary residence transaction and, where the loan is an HPML, must document that each requirement in the table above has been met.

Qualified Mortgage.

All loans are structured as Non-Qualified Mortgage (Non-QM) therefore QM Safe harbor or Rebuttable Presumption requirements do not apply, but rather still must meet the ability to repay standard.

1.5.4. Ability to Repay

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

All Covered Loans (every loan that is not a Business Purpose Loan under Section 1.5.1) must be designated as ATR compliant and must adhere to the standards set forth in the CFPB's Reg Z, Section 1026.43(c). Federal, State, and Local High-Cost Loans are not permitted.

The Borrower Ability to Repay Attestation (Exhibit 12.7) is required on every Covered Loan. The Underwriters detailed attestation regarding a borrower's ability to repay is acceptable in lieu of the Borrower Ability to Repay Attestation (Exhibit 12.7).

Some of the underwriting factors that are considered under Reg Z Ability to Repay include:

- Current employment status
- Current income / assets
- Monthly mortgage payments (all Real Estate Owned)

- Monthly payments of any installment loans
- Monthly payments for other mortgage related debts / expenses (e.g. taxes, insurance, HOI, HOA, etc.)
- Current financial obligations, alimony, & child support
- Monthly DTI
- Credit history of all borrowers
- Residual income

Refinance Transactions.

Refinance transactions must comply with all applicable federal and state requirements, including any state net tangible benefit or anti-flipping provision, and the Seller must retain evidence of compliance in the loan file where the state requires a specific disclosure or worksheet. This requirement applies to consumer-purpose loans; Business Purpose Loans under Section 1.5.1, including DSCR, are not subject to state net tangible benefit tests.

Electronic Signatures and Records.

Electronic signatures and electronic records are governed by the Onity Mortgage Corporation Correspondent Seller Guide.

2. Program Overview

2.1. Loan Products & Features

Fannie Mae security instruments, notes, riders/addenda, and special purpose documents should be utilized for loan documentation when available. In cases where Fannie Mae doesn't offer current documentation, (e.g. Interest Only Rider) an industry recognized document vendor, such as Doc Magic, Docutech, or Ellie Mae, should be utilized for forms.

Lien Position: First.

Correspondents must receive prior approval to originate Non-Agency products.

2.2. Fully Amortizing Products

Qualifying Ratios are based on PITIA payment with the principal and interest payments amortized over the loan term.

PITIA includes principal, interest, property taxes, hazard and flood insurance, mortgage insurance where applicable, homeowners association dues, ground rent, and any special assessment. A PACE or PACE-like obligation must be paid in full at or prior to closing (Section 9.1.9).

Reserve requirements: refer to Section 6.8.

2.3. Interest-Only (I-O) Products

For full document and alternative document loans, the qualifying ratios are based on the fully amortizing monthly payment (principal and interest) that will repay the loan amount over the term of the loan remaining as of the date the interest-only period ends.

For DSCR loans, the qualifying ratio may utilize the interest only payment.

Reserves for a loan with an Interest-Only feature will be calculated based upon the interest only payment.

2.4. Assumability

Fixed rate loans are not assumable.

2.5. Prepayment Penalties (PPP)

Permitted on investment property loans only. Onity Mortgage Corporation will not purchase loans with prepayment penalties in the following states. All other loans with a prepayment penalty must be in compliance with applicable federal and state laws. The prepayment penalty can be disclosed within the body of the Note or in a separate addendum to the Note. In addition, there must be a separate prepayment penalty rider to the security instrument (Deed of Trust or Mortgage). Max 5-year term.

• Alaska, Kansas, Maryland, Minnesota, New Mexico, North Dakota not allowed.

• Illinois permitted when vesting in an S or C corporation. PPPs are prohibited on all other entities (individuals, LLCs, LLPs, trusts, etc.). If borrower is a natural person, prepayment penalty is prohibited when APR is greater than 8%. Prepay is allowed when APR is =<8%.

• Michigan – allows a Flat Prepay Structure for 3 years at 1/1/1 % of the amount of the amount prepaid.

• Mississippi – allows up to a maximum 5-year declining (step down) prepayment penalty structure that cannot exceed 5%/4%/3%/2%/1%.

• New Jersey permitted when vesting in an S or C corporation. PPPs are prohibited on all other entities (individuals, LLCs, LLPs, trusts, etc.).

• Ohio permitted with a flat Prepayment Penalty up to 5 years and equal to 1% or less of the original principal amount. Loan amount must be >$116,356 (for 2026). Loan amounts < $116,356 permitted only on 3-4 units

• Oregon – requires state specific disclosure in addition to the Note and Security Instrument Rider

• Pennsylvania loan amounts >$319,777 (for 2026). Loan amounts <$319,777 permitted only on 3-4 units

• Rhode Island – allows a flat 1-year Prepayment Penalty equal to 2% of the balance due.

• Washington permitted on Fixed rate loans

Prepayment Structures

• Six months of interest - The prepayment charge will be equal to 6 months of interest on the amount of the prepayment that exceeds 20% of the original principal balance except as otherwise noted below. The charge applies to loans that pay off due to sale or refinance, or curtailments that exceed 20% of the original principal balance in a given 12-month time period.

• Step Down Prepay Structure - Step Down prepayment penalty charge % applies to any curtailment exceeding 20% of the original loan balance in a given 12-month time period, or the entire outstanding principal balance during the prepay period. The charge applies to loans that payoff due to sale or refinance during the prepay period.

- o 5 Year Prepayment Penalty- 5/4/3/2/1 %
- o 4 Year Prepayment Penalty- 4/3/2/1 %
- o 3 Year Prepayment Penalty- 3/2/1 %
- o 2 Year Prepayment Penalty- 2/1 %
- o 1 Year Prepayment Penalty- 2 %

• Flat Prepay Structure- 2%, 3%, 4%, or 5% fixed percentage - (i.e. 5/5/5/5/5, 4/4/4/4, 3/3/3, 2/2)

Flat prepayment penalty charge no greater than 5% and no less than 2% flat prepayment over the life of the prepay penalty term charged to any curtailment exceeding 20% of the original loan balance in a given 12-month time period, or the entire outstanding principal balance during the prepay period. The charge applies to loans that payoff due to sale or refinance during the prepay period.

2.6. Impound/Escrow Accounts

Escrow funds/impound accounts may be waived for taxes and hazard insurance on non HPML transaction loans if all of the following requirements are met:

Requirement	Standard
Maximum LTV/CLTV	80%; in California, 90%
Flood insurance	Not a condition of the waiver. Where flood insurance is required, it is escrowed for the life of the loan (see the table below).

Refer to Section 1.5.3 (HPML).

On purchase transactions, a property tax exemption may be used where it is fully verified, documented, and will remain applicable to the borrower after closing (for example, an owner-occupied homestead exemption). Evidence of the exemption amount from the taxing authority must be retained in the loan file; an underwriter or processor certification documenting the source and amount is acceptable evidence and satisfies the verification with the taxing authority required by Section 9.8.

The following must be escrowed and may not be waived:

Condition	Requirement
Flood insurance is required	Escrow mandatory for the life of the loan
Cash out Refinance where delinquent real estate taxes sixty (60) days or more past due are included in the loan amount	Escrow mandatory
HPML transaction	Escrow must be established at consummation and maintained for at least five years

2.7. Conflicts of Interest

A conflict of interest exists when a party to the transaction or the borrower has multiple roles in the transaction. These include but are not limited to the below situations. Parties to the transaction are expected to avoid activities, investments, or associations that might interfere with their independent exercise of judgment in the company's best interest.

The following conflicts of interest are not allowed:

- The borrower is the builder of the subject property
- The borrower is owner/principal of the mortgage brokerage or correspondent lender and is originating their personal mortgage with their own company
- The borrower is a relative of any party in the transaction, other than the property seller in a family sale or transfer permitted under Section 3.1.1
- The borrower cannot act in dual capacity (for example, borrower acting as loan officer/broker/lender/appraiser/title company in the transaction). The borrower may act as one of the realtors if there is no other business affiliation. A borrower acting as their own buyer's agent is not, for that reason alone, a non-arm's length transaction under Section 3.1.1.
- The broker/loan officer cannot act in dual capacity (for example, broker/loan officer and realtor or broker/loan officer and any other affiliation within the transaction)

- When the property seller is a corporation, partnership, or any other business entity, it must be ensured that the borrower is not an owner of the business entity selling the property, including in a corporate sale or transfer under Section 3.1.1

Employees of mortgage brokerages or correspondent lenders originating through their employer are acceptable borrowers only under the following circumstances:

- They do not act as a processor, underwriter or in any capacity in originating their loan; AND
- The subject property is their primary residence or second home; investment properties are not permitted.

No party with an interest in the transaction may select, retain, compensate, instruct, or influence the appraiser, or communicate a target value. Refer to Section 9.2.1.

2.8. Occupancy

Each loan must be documented and underwritten to one of the three occupancy types defined in this Section. The occupancy type governs the applicable LTV/CLTV grid, pricing, and program restrictions throughout this Standard and the Program Matrix. Occupancy is determined as of the note date based on the borrower's documented intent and the characteristics of the transaction.

Primary Residence.

A primary residence is a one- to four-unit property occupied by at least one borrower as their principal residence. The borrower must occupy the property within sixty (60) days of closing and intend to occupy it for at least twelve (12) months. Indicators supporting primary occupancy include proximity to the borrower's employment, the address of record for tax, voting, and licensing purposes, and the occupancy of the borrower's household.

Full Documentation, Alternative Documentation, and Asset Qualification only: a one-unit property occupied as a principal residence by the borrower's parent, or by the borrower's adult child who is physically or developmentally disabled and unable to work or to qualify for a mortgage, may be treated as the borrower's primary residence where the borrower holds title and the occupancy is documented consistent with Fannie Mae requirements. This provision is not available on Business Purpose Loans.

Military owner occupancy. A borrower who is a member of the United States Armed Forces on active duty and who is unable to physically occupy the property due to deployment, a permanent change of station, or similar military service requirement may be treated as an owner-occupant where: the property is or will be the principal residence of the borrower's household or is the residence the borrower occupied or will occupy upon return; the borrower's spouse or dependents occupy, or intend to occupy, the property; and there is no indication of an intent to abandon the property as the principal residence. Military orders or an equivalent statement of service documenting the assignment must be retained in the loan file.

Second Home.

A second home is a one-unit property that the borrower occupies for some portion of the year in addition to a primary residence. The property must be suitable for year-round occupancy; the borrower must have exclusive control over the property; and the property must not be subject to a mandatory rental pool, timeshare arrangement, or any agreement that requires the borrower to rent the property or cedes control of occupancy to a management firm or other party. The property should be reasonably distant from, or otherwise differentiated in use from, the borrower's primary residence; where the distinction is not evident, the loan file must document the basis for second home occupancy. Rental income from the subject second home may not be used to qualify.

Investment Property.

An investment property is a one- to four-unit property owned for the production of income or for investment, and not occupied by any borrower. An investment property loan is either a Business Purpose Loan or a consumer-purpose investment property loan under Section 1.5.1; if the borrower, a member of the borrower's family, or an owner of the borrowing entity occupies or intends to occupy the property at any time, the loan is not a Business Purpose Loan. Business Purpose requirements applicable to DSCR loans are set forth in Section 10.2.

Occupancy Certification and Misrepresentation.

Each borrower must certify the intended occupancy on the loan application and at closing. The stated occupancy must be reasonable when evaluated against the file as a whole, including the appraisal, the sales contract, the borrower's current residence and its disposition, and the pattern of the borrower's real estate holdings. Conflicting occupancy indicators must be resolved in the loan file before approval. Occupancy misrepresentation is fraud and is subject to Section 1.1.1.

3. Transaction Eligibility

3.1. Purchase Transaction

A purchase money transaction is one in which the proceeds are used to finance the acquisition of a property. All purchase transactions require a copy of the fully executed sales contract and all addenda, which must be included in the Mortgage file.

An assignment of purchase contract is acceptable only if the sales price is not increased and a transfer fee is not charged.

Calculate LTV/CLTV/HCLTV based on lesser of the purchase price or appraised value of the subject property.

3.1.1. Non-Arm's Length Transaction

DSCR: not permitted. Refer to the FlexIQ Non-Agency DSCR Program Matrix.

A non-arm's length transaction occurs when the borrower has a direct relationship or business affiliation with the Seller of the subject property. These transactions include, but are not limited to:

- Family sales or transfers.
- Corporate sales or transfers.
- Borrowers employed in the real estate or construction trades who are involved in the construction, financing, or sale of the subject property.
- Some transactions involving principals or a lender or other vendor (such as an appraiser, settlement agent, or title company) who is involved in the lending process of the subject property.

Non-arm's length transactions are permitted under the following circumstances:

- Primary only
- The conflict of interest prohibitions in Section 2.7 continue to apply, except that the property seller may be a relative of the borrower.
- Transactions must be fully disclosed as non-arm's length and require close examination to ensure the equity position is not compromised. Borrower must provide a written explanation stating the relationship to the seller and the reason for purchase.
- A non-arm's length transaction is not permitted if the subject property is in foreclosure, or a Notice of Default has been filed.
- The transaction must make sense.

The file must include all the following documentation:

Required Documentation	Purpose
Appraiser to be advised of non-arm's relationship	Ensures the appraiser is aware of the relationship
Copy of the canceled earnest money check	Verifies payment to the seller
Verification that the borrower is not now on title and has not been on title within the past 24 months	Confirms the borrower is not refinancing an existing interest as a purchase
A payoff statement showing the mortgage is current with no penalties/late fees	Confirms this transaction is not a foreclosure bailout
Renters purchasing from a landlord: payment history verified per Section 5.4.1	A VOR from the Seller is not acceptable

Ineligible non-arm's length transactions:

- If the borrower is purchasing from a builder who is buying his or her existing primary residence, the transaction is not permitted.
- In addition to the primary only limit above, second home or investment properties are not permitted if the property is a newly constructed property, and the borrower has a relationship or business affiliation (any ownership interest, or employment) with the builder, developer, or seller of the property.

3.1.2. Property Flipping

Property flip transactions refer to the process of purchasing an existing property, then immediately reselling it for a profit. When the property is being resold within 365 days from acquisition date to the seller's purchase date, the transaction is considered a flip.

The purchase date, as defined by the CFPB, is the date the borrower and seller execute the original purchase contract (12 CFR § 1026.35(c)). This date, regardless of the number of borrowers added to the purchase contract,

stays consistent based on the original date of execution. This also applies to a builder selling a newly built house, and to a borrower obtaining permanent financing on a construction loan, within the 365-day timeframe in this Section.

Measuring the holding period. The seller's holding period runs from the seller's acquisition date to the purchase date defined above.

Every flip transaction must meet all of the following and Section 3.1.2.3, subject to the exclusions in Section 3.1.2.1. Section 3.1.2.2 applies in addition where the subject is a primary residence and the loan is an HPML; the 180-day CFPB period in Section 3.1.2.2 governs that second appraisal requirement only.

- The property seller must be the owner of record.
- Loan must be an arm's length transaction.
- No pattern of previous flipping activity may exist in the last 12 months. A pattern is defined as three (3) or more resales by the same seller within the last twelve (12) months. Exceptions to ownership transfers may include newly constructed properties, sales by government agencies, properties inherited or acquired through divorce, and sales by the holder of a defaulted loan.
- The property was marketed openly and fairly, through a multiple listing service, auction, for sale by owner offering (documented) or developer marketing.
- An assignment of the purchase contract must meet the requirements of Section 3.1.

3.1.2.1. Property Flipping Exclusions

If the Seller is any of the following, then flipping guidelines do not apply:

- A local, state, or federal government agency
- A nonprofit entity as part of a local, state, or federal government program that lets nonprofits acquire title to single-family properties for resale from a seller who itself acquired title to the property through foreclosure, deed-in-lieu of foreclosure, or other similar judicial or nonjudicial procedure
- A person who inherited the property or acquired it through a court-ordered dissolution of marriage, civil union, or domestic partnership, or through the partition of the seller's joint or marital assets
- An employer or relocation agency in connection with an employee relocation
- A service member, as defined in 50 U.S.C. appendix 511(1), who received a deployment or permanent change of station order after purchasing the property

3.1.2.2. Second Appraisal on Flip Transactions

This subsection applies only where the subject is a primary residence and the loan is an HPML. Refer to Section 1.5.3 (HPML). It applies in addition to Sections 3.1.2, 3.1.2.1 and 3.1.2.3; other flip transactions are not subject to this subsection.

A second full appraisal is required when the property is being resold within 180 days from the seller's acquisition date and the resale price exceeds the seller's acquisition price by more than the applicable threshold below. The holding period is measured from the seller's acquisition date to the purchase date as defined by the CFPB in Section 3.1.2.

Seller's Holding Period (CFPB)	Price Increase Requiring a Second Appraisal
1–90 days	More than 10% above the seller's acquisition price
91–180 days	More than 20% above the seller's acquisition price

The borrower may not pay for the cost of an additional appraisal.

3.1.2.3. Resale Price Increase

Flips with resale prices more than the following require the increased value to be supported with commentary from the appraiser, market conditions, and comparable properties. Where the increase is due to renovation, **appraiser commentary together with a review of previous MLS listing photographs showing clear evidence of the renovation is sufficient documentation on its own.** No further validation of renovation cost is required where that evidence is present.

Where the increase is due to renovation and that evidence is not present, documentation validating the actual costs to renovate or construct is required. Acceptable documentation includes receipts, building permits, and signed contracts.

Seller's Holding Period	Resale Price Increase Requiring Support
Past 90 days	More than 10% increase in sales price
Past 91-365 days	More than 20% increase in sales price

Title transfers to and from an LLC or trust:

Transfer	Required Proof
Property transferred to or from an LLC within the last 365 days for $0	Proof that the LLC is majority-owned or controlled by the previous seller and that they owned the property for at least 6 months
Property transferred to or from a trust within the last 365 days for $0	Proof that the previous seller is the beneficiary of the trust and that they owned the property for at least 6 months

3.2. Rate Term Transaction

At least one borrower must be vested in title to the subject property at the time of application.

A transaction that requires one owner to buy out the interest of another owner (for example, as a result of a divorce settlement or dissolution of a domestic partnership) is a Rate Term Refinance. A written agreement signed by all parties stating the terms of the buyout and property transfer is required, and the departing owner must be paid through the settlement of the subject loan.

Rate Term Refinance is defined as a transaction in which the new loan amount is limited to the payoff of the present first lien mortgage (including a HELOC in first lien position, which is not subject to the draw limit in Section 3.2.1), subordinated mortgages used for purchase money, subordinate liens meeting Section 3.2.1, the amount paid to the departing owner in a buyout under this Section, the payoff of an installment land contract under Section 3.11, closing costs and prepay penalties.

Continuity of obligation is required. No ownership seasoning requirement. Cash to the borrower must not exceed the greater of 1% of the new loan amount or $5,000. There is zero cash back allowed for primary/homestead refinance transactions in the state of Texas.

The incidental cash back allowance is cash to the borrower at closing. Loan proceeds disbursed at closing to pay any debt other than the liens permitted in this Section (real estate taxes are governed by Section 5.4.1), in any amount, make the transaction a Cash-out Refinance. Incidental cash back on a Rate Term transaction may not be counted toward reserves.

Delinquent property taxes: refer to Section 5.4.1.

Properties listed for sale within the last six months are subject to Section 3.5.

3.2.1. Payoff of Non-Purchase Money Subordinate Financing

A subordinate lien the proceeds of which were not used to acquire the subject property, including a HELOC or closed-end second, may be paid off in a Rate Term transaction when all the following are met:

- The subordinate lien is seasoned a minimum of six (6) months, measured from the note date of the subordinate lien to the note date of the new loan.
- For a HELOC or other open-end line of credit, draws in the twelve (12) months prior to the application date do not exceed $2,000 in the aggregate.
- The loan file must include the payoff statement for the subordinate lien and documentation of the origination date of the subordinate lien, which may be evidenced by the credit report, the title commitment, or a copy of the subordinate note.

Where the subordinate lien does not meet the requirements above, payoff of that lien makes the transaction a Cash-out Refinance. Refer to Section 3.4.

On a Business Purpose Loan, the payoff of any subordinate lien must also meet the business purpose requirements of Section 1.5.1.

3.3. Delayed Financing Transaction

DSCR: eligible. Refer to the FlexIQ Non-Agency DSCR Program Matrix.

Delayed Financing is a refinance of a property purchased by the borrower for cash within the six (6) months preceding the application date.

Delayed financing is underwritten and priced as a Rate Term transaction. Refer to Section 3.2, except that the loan amount and cash to the borrower are limited as stated below and continuity of obligation is not required.

- Loan proceeds may not exceed the documented acquisition cost, including documented closing costs, less any gift funds received.
- The original purchase transaction must have been arm's length.
- LTV/CLTV is calculated on the lesser of the original purchase price plus documented improvements, or the current appraised value.
- Cash-in-hand limits do not apply.

- Delayed financing on a primary residence/homestead in Texas is not allowed as it must be treated as a cash-out transaction under Texas 50(a)(6) guidelines.

The loan file must include the Closing Disclosure or settlement statement from the original purchase evidencing no financing, documentation of the source of funds used for the original purchase, and invoices or receipts for any improvements claimed.

3.4. Cash-out Refinance Transaction

3.4.1. Definition

Cash-out Refinance is defined as a transaction in which any of the following are true:

- Other than in a Delayed Financing transaction under Section 3.3, equity is taken out of the subject property, in an amount exceeding the incidental cash back permitted under Section 3.2, and may be used for any purpose permitted under Section 3.4.2;
- A non-purchase money subordinate mortgage lien is paid off that does not meet the requirements of Section 3.2.1;
- The transaction is a Texas Section 50(a)(6) home equity loan.
- Delinquent real estate taxes sixty (60) days or more past due are paid from loan proceeds (Section 5.4.1).

Payoff of the UPB of the existing first mortgage does not, by itself, make the transaction a cash-out refinance. Financing the payment of closing costs, points, and prepaid items does not, by itself, make the transaction a cash-out refinance. The borrower can include real estate taxes in the new loan amount. Delinquent real estate taxes (taxes sixty (60) days or more past due) can also be included in the new loan amount, but if they are, an escrow account must be established, subject to applicable law or regulation.

3.4.2. Eligibility Requirements

The following requirements apply to cash-out transactions:

- The transaction must be used to pay off existing mortgage loans by obtaining a new first mortgage secured by the same property, or be a new mortgage on a property that does not have a mortgage lien against it (the borrower owns the property free and clear at the time of refinance).
- Cash-in-hand is determined by the amount of cash out reflected on the Final closing Disclosure (after any debt is paid off, associated with the subject property or otherwise). Any cash-in-hand proceeds, to the Borrower, from any cash-out refinance transaction must be wired to a U.S. bank account. Refer to the individual Product Description and Program Matrix for cash back limits.
- At least one borrower must have been on title. Refer to Section 3.4.3 for ownership seasoning and its exceptions.
- Subject properties may not currently be listed for sale. Properties that have been listed for sale within the last six months must adhere to the requirements set forth within Section 3.5 Properties Listed for Sale.
- Business Purpose Loan cash-out transactions (DSCR, or Full Documentation, Alternative Documentation or Asset Qualification under Section 1.5.1) must include a Business Purpose and Occupancy Affidavit executed as required by Section 1.5.1, and a signed letter of explanation from the borrower stating the purpose of the cash-out. The explanation must be detailed enough to understand if any cash-out proceeds will be used for personal or business purposes.

Use of Cash-Out Proceeds	Examples
Personal — not allowed on a Business Purpose Loan	Paying off personal debt; acquisition, maintenance or improvement of an owner-occupied property, including a second home; other household usage
Business — permitted	Acquisition, maintenance or improvement of rental properties; capital investment in a business; working capital to support a business
Business Purpose Loan (DSCR, or Full Documentation, Alternative Documentation or Asset Qualification under Section 1.5.1)	Proceeds must be used for business purposes only; personal, family, or household use is not permitted. A borrower letter stating the intended use of proceeds is required.
Consumer-purpose investment property loan (TRID)	Proceeds may be used for any purpose.

- Cash-out proceeds can be used to meet reserve requirements. Refer to Section 6.8 Reserves for details.
- Use of a Power of attorney is not allowed.

3.4.3. Seasoning Requirements

The following seasoning requirements apply to cash-out transactions.

At least one borrower on the new loan must be an owner (on title) of the subject property at the time of loan application. At least one borrower must have owned the subject property for six (6) months or more as of the note date, including the lot on a construction-to-permanent transaction under Section 3.6, except in the circumstances listed below.

Ownership at Note Date	LTV/CLTV Basis
Less than six (6) months	Not eligible, except in the circumstances listed below, which use the current appraised value
Six (6) months or more	Current appraised value

For cash-out transactions, the six-month seasoning does not apply, and current appraised value may be used, in the following circumstances, which are exceptions to the cash-out seasoning requirement:

- **Inherited Properties** — There is no waiting period if the borrower acquired the property through an inheritance or was legally awarded the property (divorce, separation, or dissolution of a domestic partnership). The inheritance/award must be documented per Fannie Mae guidelines. This exclusion applies to DSCR loans.
- When buying out a co-owner pursuant to a legal agreement, where the buyout is closed as a Cash-out Refinance (a buyout within the limits of Section 3.2 is a Rate Term Refinance).

Time counted toward the six-month ownership requirement:

Prior Owner	Requirement
An entity that is majority-owned or controlled by the borrower(s)	Time held by the entity may be counted
An inter vivos revocable trust	Time held by the trust may be counted if the borrower is the primary beneficiary of the trust

If the prior transaction was a cash out refinance, then the existing first mortgage that is being paid off through the transaction must be at least 6 months old at the time of refinance, as measured by the note date of the existing loan to the note date of the new loan.

A Cash-out Refinance may include paying off any outstanding subordinate mortgage liens of any age.

3.5. Properties Listed for Sale

Properties that have been listed for sale within the last six months prior to the application date must adhere to the below guidelines:

- **Rate Term Transaction:** The property must be removed from listing prior to the application date. LTV will be based on the lesser of the list price or appraised value.
- **Cash out Transaction:** The property must be removed from listing prior to the application date. Properties that have been listed for sale by the current owner within the last 6 months require a 5% reduction in LTV based on occupancy/transaction type. The LTV will be based on the lesser of the list price or the appraised value.

A borrower letter of explanation addressing the reason for the listing and the borrower's current intent, together with evidence of the listing cancellation, is required on both transaction types.

3.6. Construction-to-Permanent Financing

Construction to permanent financing refers to the replacement of interim construction financing with a long-term mortgage. Onity Mortgage Corporation does not provide interim construction financing. 1-time close construction conversion loans are not eligible. 2-time close construction conversion to pay off an interim construction loan is acceptable per Fannie Mae guidelines.

The permanent financing may be closed as either a Rate Term transaction or a Cash-out Refinance transaction, as determined under Sections 3.2 and 3.4, subject to the Program Matrix parameters applicable to that transaction type. A Cash-out Refinance requires that the lot or property was acquired six (6) months or more prior to the note date (Section 3.4.3); the less than six months row below applies to Rate Term transactions only.

Property taxes for construction-to-permanent transactions must be calculated on the land and all completed improvements in accordance with Section 9.8.

Lot or Property Acquired	LTV/CLTV Basis
Six (6) months or more prior to the note date	Current appraised value
Less than six (6) months prior to the note date	Lesser of the current appraised value or total acquisition cost (lot cost plus documented construction cost)

3.7. Subordinate Financing

New and existing subordinate financing are permitted on eligible Full Documentation, Alternative Documentation, and Asset Qualification transactions, subject to the restrictions below. DSCR transactions are subject to the restrictions below and to the DSCR limitation stated in this section.

- Total CLTV/HCLTV may not exceed the max LTV/CLTV in the individual Product Description and Program Matrix.
- Existing subordinate financing on a refinance must be subordinated to the subject loan and recorded.
- The executed subordination agreement and a copy of the subordinate note are required.
- Must be with a US financial institution, an employer, or a governmental or nonprofit community program. No private parties. Proceeds of subordinate financing from an employer or a governmental or nonprofit community program that meets this Section may be used for down payment and closing costs notwithstanding Section 6.9.
- Not permitted where the subordinate lien carries a prepayment penalty.
- No balloon financing or negative amortization.
- Secondary financing from an interested party is not allowed for a purchase transaction.
- Where the subordinate lien is a HELOC, the CLTV is calculated on the full available line, not the drawn balance.
- For a HELOC secured by the subject property, the qualifying payment is the minimum payment required under the HELOC terms, considering all draws made on or before closing. The payment must be included in the DTI calculation where DTI is calculated.
- For a closed-end, fixed-rate, fully amortizing simultaneous subordinate loan, use the actual monthly payment in the DTI calculation.
- All requirements in this section and the applicable Product Description and Program Matrix must be met.
- Not permitted on Interest only
- DSCR: New subordinate financing is not allowed. Existing subordinate financing is allowed on refinance transactions and must be subordinated to the subject loan and recorded.

3.8. Interested Third-Party Contributions (IPCs)

Interested party contributions on purchase transactions are limited as follows:

- Primary Residence and Second Home at or below 75% LTV/CLTV: 9%.
- Primary Residence and Second Home above 75% LTV/CLTV: 6%.
- Investment Property, including DSCR: 6%.

Contributions exceeding the applicable limit must be treated as a sales concession and the LTV basis reduced dollar for dollar. On DSCR purchases, rent credits and security deposit credits transferred under the assignment of leases and rents are not interested party contributions; refer to Section 10.4.

3.9. Ineligible Transactions

- Lease Options/Rent to Own
- Interim Construction
- Conversion Loans (1-time close construction conversion loans; refer to Section 3.6)
- Builder buyer/bailout transactions (builder is buying from their own inventory)
- CEMA transactions
- Graduated Payment Mortgage Loans
- Simple Interest Loans
- Periodic Payment – Loans must have periodic payments due and loans cannot have more than 3 monthly payments paid in advance from the proceeds of the mortgage loan
- Ground leases
- Temporary interest rate buydowns
- Texas Section 50(a)(6) and 50(a)(4) transactions on DSCR
- Transactions in which a PACE or PACE-like obligation will remain in place after closing (Section 9.1.9)
- Loans meeting the New York Subprime definition
- For purposes of this list, a ground lease does not include a Leasehold Property eligible under Section 9.1.1.

3.10. Texas 50(a)(6) and Texas 50(a)(4) Loans

Texas 50(a)(6) and Texas 50(a)(4) are allowed on Full Doc and Alt Doc loans, including Asset Qualification, with respect to the following.

3.10.1. Texas 50(a)(6) Loans

Texas law determines whether or not a loan is a Texas Section 50(a)(6) loan. Texas 50(a)(6) loans are eligible for all FlexIQ products, other than DSCR and Asset Utilization (a Texas 50(a)(6) loan is a Cash-out Refinance, Sections 3.4.1 and 8.5.2), on a one-unit primary residence homestead only, under the following terms:

- Primary Residence only
- Max 80% LTV/CLTV
- Permitted for Single Family Dwelling, PUD or Condominium, multi-unit properties are not permitted
- Fully amortizing loan terms only, Interest Only is prohibited
- Cannot use a Power of Attorney (POA) at closing
- Any existing Texas Section 50(a)(6) lien must be seasoned for at least 12 months before the borrower is eligible for a new refinance
- If the property is the borrower's urban homestead, it must not exceed 10 acres
- If the property is the borrower's rural homestead, it must not exceed 20 acres
- The fee limitation in Section 50(a)(6)(E) must be tested prior to closing: fees may not exceed 2% of the original principal amount, excluding third-party appraisal and survey fees, the state base premium for the mortgagee title policy with endorsements, and bona fide discount points
- The 12-day notice is required

All requirements of Texas Constitution Article XVI, Section 50 apply, including the once-per-year and one-lien restrictions.

3.10.2. Texas 50(a)(4) Loans

Texas law permits an existing home equity loan that meets certain requirements to be refinanced in a rate/term refinance loan. Texas 50(a)(4) loans are eligible for all FlexIQ products, other than DSCR, under the following terms:

- Primary Residence only
- Max 80% LTV/CLTV
- Permitted for Single Family Dwelling, PUD or Condominium, multi-unit properties are not permitted
- The loan amount can only include funds advanced to refinance the existing Texas Section 50(a)(6) lien, plus actual costs required to refinance the debt
- Borrower may not receive any cash back (no additional funds other than the actual costs and reserves required to refinance the debt)
- The Texas 50(a)(6) loan being refinanced must have closed at least one year before the refinance closes
- The notice required by Section 50(f)(2)(D) must be provided no later than the third business day after application and at least 12 days before closing

3.10.3. Seller Responsibility

Sellers shall not rely on Onity Mortgage's categorization of a loan as a "Cash-Out Refinance" for purposes of determining whether compliance with the Texas Constitution is required. Sellers shall instead consult with their own legal or compliance resources to determine the applicability of Article XVI, Section 50(a)(6) to a specific transaction.

3.11. Land Contracts

A refinance transaction that pays off an installment land contract or contract for deed is eligible. Under a land contract the seller holds title until the contract is paid off; the requirement in Section 3.2 that a borrower be vested in title at application does not apply to a Rate Term land contract payoff, and the transaction type is determined by the table below.

Contract Executed	Transaction Type	LTV/CLTV Basis
More than twelve (12) months prior to the application date	Rate Term	Current appraised value
Twelve (12) months or less prior to the application date	Purchase	Lesser of the contract price or the current appraised value

A fully executed copy of the land contract is required. Where the contract is more than twelve months old, twelve (12) months of proof of payment meeting the requirements of Section 5.4.1 is required.

A land contract payoff is not eligible as a Cash-out Refinance. Cash to the borrower on a Rate Term land contract payoff may not exceed the incidental cash back permitted under Section 3.2.

4. Borrower Eligibility

4.1. US Citizens

All U.S. Citizens, as defined by U.S. Citizenship and Immigration Services (USCIS). A valid social security number is required.

4.2. Geographic Eligibility and Property Concentration

Properties must be located in one of the 50 United States or the District of Columbia.

The following locations are not permitted: Guam, US Virgin Islands, Puerto Rico, American Samoa, and the Northern Mariana Islands.

Hawaii is only allowed in Delegated Correspondent.

There are no city or county level occupancy restrictions. Investment properties are permitted in all eligible jurisdictions.

The Seller is required, in the following geographic locations, to include a Collateral Desktop Analysis (CDA) from Clear Capital in their closed loan package, **regardless of the CU score**. **All loans secured by property in the counties listed below are subject to an additional review by Onity Mortgage Corporation.** The appraisal and CDA value must meet the appraisal valuation requirements in Section 9.2.3. Where two appraisals are obtained under Section 9.2.4, the CDA is not required.

Counties requiring a CDA and additional review:

- Bergen County, N.J.
- Essex County, N.J.
- Orange County, N.Y.
- Rockland County, N.Y.

Maximum project exposure to any borrower for condominiums is the lesser of 3 units, or 20% of the total units in the project. In a project of ten (10) or fewer total units, the borrower may finance one (1) unit.

4.2.1. Borrower Portfolio Concentration Review

Onity Mortgage Corporation evaluates geographic property concentration risk for Non-Agency loans where a borrower owns multiple financed residential properties within a defined geographic area. Geographic concentration is not a standalone decline factor, but may require enhanced analysis, documentation, or compensating factors when layered with additional risk.

The purpose of this review is to identify transactions where the borrower's own activity is establishing the market — where the comparable sales, the rents, or both are being set by the borrower's own transactions rather than by an arm's length market. A property is only worth what an unrelated buyer will pay and will only rent for what an unrelated tenant will pay. Where the borrower is on both sides of that test, the appraised value and the market rent supporting the DSCR are not independent.

4.2.1.1. When a Concentration Review Is Required

A concentration review is required when **any** of the following are met:

Trigger	Threshold
Properties in the same ZIP Code or city with the same appraiser	Three (3) or more financed properties
Properties in the same metropolitan statistical area (MSA)	Four (4) or more financed properties
Share of the borrower's financed portfolio in one geographic area	More than 50%
Properties in the same condominium project	Refer to Section 4.2 for project exposure limits
Properties acquired from the same seller or through the same entity	Two (2) or more within the prior 12 months

The review must confirm that the sales and rental comparables relied upon are not owned by the borrower or by an entity owned by the borrower. The same-appraiser trigger above also applies to multipack transactions. The concentration review controls the collateral and income analysis for the subject transaction only. A borrower's ownership of other properties in the same area is not, by itself, a basis for decline unless those properties are relied upon in the value or rental analysis.

4.2.1.2. Required Checks

Check	How	What it detects
Comparable sales	The file must evidence that the appraisal grid was reviewed against the borrower's schedule of real estate owned and the fraud report to determine whether any comparable sale is a property the borrower, a related party, or the same seller owns or previously sold.	The borrower's own prior purchase is supporting the value of the current one.
Same appraiser across the portfolio	**The file must evidence that the appraiser name was compared across appraisals in the file and, where available, prior Onity transactions for the same borrower.**	**A single appraiser establishing value across a concentrated portfolio.**
Rent comparables	The file must evidence that the Form 1007/1025 rent comparables were reviewed against the borrower's owned properties and that the comparable rentals are not units the borrower owns or manages.	The borrower's own asking rents supporting the market rent used for DSCR.
Lease terms	Where a lease is provided, the file must evidence that the tenant is unrelated and that the rent is at or below the Form 1007/1025 market rent or, where the lease exceeds market rent, that the rent used is limited as stated in Section 10.4.1.	An above-market lease written by the borrower to lift the DSCR.
Seller and settlement parties	The file must evidence that the property seller, title company, and any assignor are unrelated to the borrower (other than a non-arm's length purchase permitted under Section 3.1.1), screened against the fraud report.	A closed loop between buyer, seller and valuation.
Rapid acquisition pattern	Apply Section 4.12. The file must evidence review of the acquisition dates and prices of the borrower's recent purchases in the same area.	Prices escalating across a series of the borrower's own transactions.
Project concentration	Where the properties are in one project, apply the condominium project exposure limits in Section 4.2.	A borrower taking a controlling position in a single project.

The review uses the Form 1003 schedule of real estate owned where that section has been completed. On DSCR transactions, where the Form 1003 REO section is not completed, the review uses the credit report and the fraud report; a borrower-provided schedule of real estate owned is obtained where those sources indicate additional properties.

4.2.1.3. Required Documentation

When concentration exists, the loan file must document the number and location of the properties, summarize the risk analysis, and include a narrative supporting the final credit decision.

Where any of the checks above identifies the borrower's own activity supporting the valuation or the rent, **the appraised value and the market rent must be independently supported before the loan may be approved.** Acceptable support includes:

- A second appraisal by a different appraiser and a different appraisal company, in accordance with Section 9.2.4
- A Collateral Desktop Analysis, Appraisal Risk Review, or Consolidated Collateral Analysis
- Rent comparables drawn exclusively from properties the borrower does not own or manage
- For a DSCR transaction, the **qualifying rent determined under Section 10.4.1, using** the independently supported market rent in place of the Form 1007/1025 market rent

A loan may not be approved where the value or the market rent is supported only by the borrower's own transactions.

4.3. Permanent Resident Aliens

A Permanent Resident Alien is a non-U.S. Citizen who is authorized to live and work in the United States on a permanent basis. A valid social security number is required. Permanent Resident Aliens are eligible for financing without program restriction.

Acceptable evidence of lawful permanent residency must be documented and meet **one** of the following:

Document	Requirement
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	Conditional Permanent Resident Card (Green Card) issued for two (2) years that has an expiration date, **accompanied by a copy of the filed USCIS Form I-751 (Petition to Remove Conditions on Residence) or USCIS Form I-829 (Petition to Remove Conditions)**
Unexpired foreign passport	Bearing an unexpired stamp reading "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until mm-dd-yy. Employment Authorized." This evidences the holder has been approved for, but not issued, a Permanent Resident Card.

Cards expiring within three (3) months of the note date. Where an I-551 is due to expire within three (3) months of the note date, it must be accompanied by a copy of the filed Form I-90 (Application to replace Permanent Resident Card), **USCIS Form I-751 (Petition to Remove Conditions on Residence)** or **USCIS Form I-829 (Petition to Remove Conditions)** filing receipt.

4.4. Non-Permanent Resident Aliens

A Non-Permanent Resident Alien is an individual who is not a U.S. Citizen but lives in the United States under the terms of an applicable visa. A valid social security number is required. Non-Permanent Resident Aliens must have a 2-year credit history and, except on DSCR transactions (Section 10.3), a 2-year employment history.

Non-Permanent Resident Aliens are eligible on all occupancies, all transaction types, and all documentation types, with no LTV/CLTV reduction and no minimum U.S. residency period.

4.4.1. Documentation of Status

Except as provided in Section 4.4.4, a copy of the borrower's unexpired visa must be obtained. Refer to the list of acceptable visa classifications in Section 4.4.2.

If the visa does not provide the authority to work, an Employment Authorization Card (EAD) is also required. Except as provided in Section 4.4.4, an EAD by itself is not sufficient to document that a non-U.S. Citizen is legally able to reside in the United States.

An EAD is only required to be provided if using income to qualify.

Alternative documentation. Any one of the following is acceptable alternative documentation to verify Visa/EAD status:

Document	Requirements
Form I-797, I-797A, I-797B, or I-797C (Notice of Action)	Must relate to either an acceptable non-permanent resident alien status or permanent resident alien status; have a valid extension date; and evidence that the proper extension steps have been followed per the USCIS website.
Form I-765 Application for Employment Authorization	Must reflect approval status in the Action Block, in the upper right-hand corner of the form
Unexpired passport with H-1B status stamp	Acceptable for residents of Canada or Mexico in place of the visa

4.4.2. Acceptable Visa Classifications

Category	Visa Type	Description	Required Documentation
Treaty Trader / Investor	E-1	Treaty Trader — national of a treaty country engaged in substantial trade between that country and the U.S.	Visa and EAD (Code C02)
	E-2	Treaty Investor — national of a treaty country investing	Visa

Category	Visa Type	Description	Required Documentation
		substantial capital in a U.S. enterprise	
	E-3	Specialty Occupation — Australian nationals only	Visa
	Spouse of E-1, E-2, E-3	Dependent spouse of a treaty trader or investor	Visa and EAD (Code A17/C12)
International Organization	G-1 through G-5	Representatives, officials, and employees of designated international organizations, and their immediate family members	Visa and proof of no diplomatic immunity. EAD (Code C04) required for spouse or unmarried dependent child of G-1, G-3 or G-4
Specialty Occupation	H-1B	Specialty occupation requiring at least a bachelor's degree or equivalent in the field	Visa
	H-1C	Registered nurse working in a designated health professional shortage area	Visa
	H-4	Dependent spouse or unmarried child under 21 of an H visa holder	Visa and EAD (Code C26)
Foreign Media	I	Representative of foreign press, radio, film, or other information media	Visa
Fiancé and Spouse of U.S. Citizen	K-1	Fiancé(e) of a U.S. citizen entering to marry within 90 days	Visa and EAD (Code A06)
	K-3	Spouse of a U.S. citizen awaiting adjudication of an immigrant visa petition	Visa and EAD (Code A09)
Intracompany Transferee	L-1, L-1A	Executive or manager transferred from a related foreign employer	Visa
	L-1B	Employee with specialized knowledge transferred from a related foreign employer	Visa
	L-2	Dependent spouse or unmarried child under 21 of an L-1 holder	Visa and EAD (Code A18)
NATO	NATO 1-6	Representatives, officials, and employees of NATO, and their immediate family members	Visa
Extraordinary Ability	O-1	Individual with extraordinary ability in the sciences, arts, education, business, or athletics	Visa
Athlete	P-1A	Internationally recognized athlete competing individually or as part of a team	Visa
Religious Worker	R-1	Religious worker employed by a nonprofit religious organization in the U.S.	Visa
USMCA / NAFTA Professional	TN-1	Canadian citizen in a designated professional occupation	Visa
	TN-2	Mexican citizen in a designated professional occupation	Visa
Spouse or Child of Permanent Resident	V-1, V-2, V-3	Spouse or unmarried child of a lawful permanent resident awaiting an immigrant visa	Visa and EAD (Code A15)

The list above is the complete list of acceptable visa classifications. A borrower holding a visa classification not listed above is not eligible. This is not exception-eligible.

4.4.3. Visa or EAD Expiring Within Six Months of Application

If the EAD or Visa expires 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/EAD renewal sponsorship.

The employer on the loan application must be the same as the employer shown on the unexpired visa.

If there are no prior EAD/Visa renewals, the likelihood of renewal must be determined based on the information from the USCIS and the EAD/Visa type. The basis for the determination must be documented in the loan file.

Automatic extensions. Where USCIS has granted an automatic extension of the EAD, the expired EAD together with the Form I-797C receipt notice evidencing the extension is acceptable documentation **for up to 540 days** from the stated expiration date. The loan file must evidence that the automatic extension applies to the borrower's EAD category per the USCIS website and document the confirmation.

4.4.4. Refugees and Asylees

Status	Acceptable Documentation — any one
Refugee	I-94 Arrival and Departure Record; or I-590, I-730 or I-797 Notice of Action; or court documents indicating the borrower is a refugee (admission class of "RE"); or an EAD reflecting category code **A03 or A04**
Grant of Asylum (Asylee)	I-94 Arrival and Departure Record; or I-589, I-730 or I-797 Notice of Action; or court documents indicating the borrower has been granted asylum (such as admission class **"AS" or "AY"**); or an EAD reflecting **A05**

4.5. First Time Homebuyers (FTHB)

First Time Homebuyer requirements apply only when every borrower is a First Time Homebuyer, except the DTI limit in Section 7.1, which applies when any borrower is a First Time Homebuyer.

First Time Home Buyers ("FTHB") are individuals that have not had ownership interest (sole or joint) in a commercial or residential property in the United States during the three-year period preceding the note date of the purchase of the subject property.

- Primary Residence and Second Home transactions only under Full Documentation, Alternative Documentation, and Asset Qualification. Investment Property and DSCR transactions are not permitted for a First Time Homebuyer.
- 12 months housing history reflecting 0x30 is required, or the borrower must be eligible under Section 5.4.2 (rent-free or less than 12 months housing history). Refer to Section 5.4.
- Refer to the Program Matrix for FTHB parameters.

Refer to the Program Matrix for FTHB requirements under the Written Verification of Employment documentation option.

4.6. Non-Occupant Co-Borrowers

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

- Primary Residence only
- 1 unit only
- Purchase, Rate Term, and Cash-out Refinance transactions
- Cash-out Refinance: the maximum LTV/CLTV is 5% below the maximum for the transaction on the Program Matrix, and the occupying borrower must contribute qualifying income
- The non-occupant co-borrower must sign the Note and the security instrument
- The non-occupant co-borrower may not have an interest in the property sales transaction, such as the property seller, the builder, or the real estate broker
- The non-occupant borrower must be on title
- Not allowed on Asset Depletion and Asset Utilization

- One of the following must be met:
  - Occupying borrower must have a DTI ratio of 60% or less, exclusive of income and debts of the non-occupant
  - Max 45% combined DTI and Max 80% LTV/CLTV

Borrower(s) and co-borrower(s) must complete and sign a Non-Occupant Co-Borrower Certification.

4.7. Ineligible Borrowers

- Non-U.S. citizens, without lawful residency status in the United States
- Foreign nationals with no residency status in the US
- Borrowers with Diplomatic Immunity
- Deferred Action Status (such as DACA/C33) or Temporary Protected Status (such as A12 or C19), or any non-U.S. citizen who does not hold an eligible visa classification (refugees and asylees documented under Section 4.4.4 are eligible)
- ITIN Borrowers residing in the US
- Irrevocable Trust, Land Trust (including an Illinois land trust), Blind Trust
- Vesting in a Life Estate
- Nonprofit or Not-For-Profit entity
- IRAs
- Persons residing in an OFAC sanctioned country and persons sanctioned by OFAC
- Any material party to the transaction listed on HUD's Limited Denial of Participation (LDP) list, the GSA Excluded Party list, or any other exclusionary list
- Borrowers using a private credit repair company to rescore or repull the credit report (Section 5.3)

4.8. Vesting

Acceptable forms of vesting are:

- Individuals
- Joint tenants
- Tenants in Common
- Leasehold
- Inter-Vivos Revocable Trust
- Entity: Limited Liability Company, Corporation, Partnership

4.8.1. Inter-Vivos Revocable Trust

An Inter-Vivos Revocable Trust is often referred to as a family trust, a living trust, or a revocable living trust. This vesting type is eligible on all eligible property types and unit counts, for primary residence, second home, or investment property, when the trust meets Fannie Mae guidelines.

The trust must be established by one or more natural persons. At least one trustee must be a borrower on the loan. Full trust documentation, or a trust certification where permitted by state law, must be in the loan file.

Trust eligibility is not affected if the trust documents contain a provision that the trust will, in the future, become irrevocable upon the death of one of the settlors/trustees.

Power of Attorney is not permitted where title is vested in a trust.

4.8.2. Entity Vesting

Title may be vested in an Entity on investment property transactions, whether the loan is qualified under DSCR, Full Documentation, Alternative Documentation, or Asset Qualification. The following requirements apply:

- **The entity must be formed for the purpose of ownership and management of real estate.** Where the entity's formation documents state a broader purpose, the loan file must document how the subject transaction falls within the entity's stated purpose.
- Entity must be domiciled in a U.S. state and in good standing
- Entity ownership does not exceed four (4) individual owners/members/shareholders
- The Guarantor is at least 25% owner of the entity or majority shareholder and has authorization to sign on behalf of the entity. **Where there is more than one Guarantor, the 25% threshold may be met on a combined**

basis across all Guarantors, as confirmed by the Operating Agreement or equivalent. All Guarantors relied upon to reach the threshold must be disclosed and must credit qualify.

- A personal guarantee must be provided when the loan is not signed individually. All personal guarantees must be notarized.
- A signed Business Purpose and Occupancy Affidavit is required on every Business Purpose Loan (Section 1.5.1)
- Each Entity owner/member on the loan must sign the security instruments
- Each Entity owner/member providing a Personal Guaranty is subject to an automated 3rd party fraud and data check tool and must complete a Form 1003 or similar credit application indicating clearly that such document is being provided in the capacity of the guarantor. The application of each member/owner providing a Personal Guaranty, and their credit score and creditworthiness, will also be used to determine qualification and pricing.
- Title may not be vested in more than one Entity
- The Onity Mortgage Corporation Entity Review Checklist is required
- **No correspondent seller shall suggest or encourage the formation of an Entity for the purpose of obtaining a mortgage loan. Such structures shall be initiated and arranged by the members of the Entity.**

The percentage of ownership in an existing entity may not change within 90 days prior to application date.

Note signing and personal guaranty:

Note Signed As	Personal Guaranty
Only as the member or business representative	The borrower must sign a Personal Guaranty
As the member or business representative **and** as an individual or guarantor	The borrower(s) are not required to sign a Personal Guaranty

Spousal Consent to Pledge is required for Personal Guaranties from community property states. **The form must be executed at loan closing and dated the same date as the Note.**

Where more than one member signs, each signing member must sign the Note both on behalf of the entity and individually for the Personal Guaranty to be waived. A member who signs only on behalf of the entity must provide a Personal Guaranty.

4.8.2.1. Required Entity Documentation

For formation filings, the Certificate of Good Standing, and EIN documentation, official documentation must be issued by a CPA, the State, or the IRS to satisfy the below document requirements. Fillable PDFs or emails from borrowers are not sufficient. The EIN documentation (or, for a single-member LLC, the SSN documentation permitted in the LLC Tax Identification Number row) and the Certificate of Good Standing are required in all cases. Formation documents are required. The Operating Agreement is required where it exists; the Operating Agreement row below states what documentation satisfies the requirement where one was never adopted.

Limited Liability Company (LLC)

Document	Requirement
LLC Formation Documents and all amendments	Required. Provide the Articles of Organization or Certificate of Formation and all amendments.
Operating Agreement	**Will be reviewed to determine the agents' powers and limitations to borrow, pledge, encumber, hypothecate or mortgage personal or real property. The mortgage transaction may only be executed by those individuals who are designated as an authorized signatory for the LLC. Where the LLC never adopted an Operating Agreement, an Officer's Certificate identifying the authorized signatories may be relied upon in its place.**
Tax Identification Number (EIN)	In any case where a single-member LLC is using its member's SSN in lieu of an EIN, the loan file must include a Seller certification or other supporting documentation
Certificate of Good Standing	Dated within 30 days of closing
LLC Borrowing Resolution	Required when all owners/members are not on the loan

Corporation

Document	Requirement
Filed Certificate / Articles of Incorporation, including all Amendments	**Required to determine the appropriate agents and signatories for the transaction**

Document	Requirement
By-Laws, including all Amendments	**Must include provisions that permit the acquisition, improvement and/or maintenance of the property, and the ability to mortgage the property**
Certificate of Good Standing	Dated within 30 days of closing
Tax Identification Number (EIN)	Required
Corporate Resolution	Granting authority of the signor to enter the loan obligation
Franchise tax	**Receipt of current year franchise tax payment, or a clear search, where applicable per State**

Partnership

Document	Requirement
Filed Partnership Certificate	If a general partnership, filing with the Secretary of State may not be required; the Certificate of Good Standing below is still required
Partnership Agreement, including all Amendments	Required
Certificate of Good Standing	Dated within 30 days of closing
Tax Identification Number (EIN)	Required
Limited partner consent	Where required by the partnership agreement
Security Instrument	**All parties who take title to the subject property must sign the Security Instrument. All parties to the loan do not have to be on title.**

All entity types

Document	Requirement
Personal Guaranty	Required as stated in Section 4.8.2
Spousal Consent to Pledge	Required as stated in Section 4.8.2
Entity Review Checklist	Onity Mortgage Corporation form
Business Purpose and Occupancy Affidavit	Required on all Business Purpose Loans (Section 1.5.1)

4.8.3. Layered Entities

Layered entities are permitted up to two (2) layers, **as long as the ownership structure is consistent from top to bottom, with no discrepancies.**

- **Entities layered with a Trust are NOT eligible.**
- **Entity guideline requirements must be met for each entity**, including the documentation requirements in Section 4.8.2.1 for every entity in the chain.
- Ultimate beneficial ownership must resolve to natural persons within the two permitted layers, and each such person must be identified and screened under Section 1.1.1.
- Each Guarantor must be one of those natural persons, and the 25% ownership threshold in Section 4.8.2 is measured on the Guarantor's ownership of the borrowing entity through the layers.

4.9. Multiple Financed Properties

Where the subject property is an investment property, there is no limit on the total number of financed properties a borrower may own.

Where the subject property is not an investment property, a single borrower can have no more than 20 financed properties including subject property.

All properties in which the borrower is personally obligated must be included in the financed property maximum. Properties vested in the name of the borrower's business and not on the borrower's credit report are not included in the max financed property limit.

Financed properties are identified through the credit report, the fraud report, and the borrower's schedule of real estate owned. Properties owned free and clear and vacant land are excluded.

This section does not modify the maximum exposure to a single borrower. Refer to Section 4.10. This section does not modify the rapid acquisition requirement. Refer to Section 4.12.

4.10. Maximum Exposure to Single Borrower

Maximum aggregate exposure to Onity Mortgage Corporation for one borrower is **$7,500,000 in unpaid principal balance or ten (10) loans**, whichever is reached first.

Exposure is determined across all products and occupancies and includes loans on which the borrower or guarantor is obligated personally or by guaranty, including loans vested in an entity where the borrower provides a personal guaranty.

No exception applies to this limit. The limit is calculated on all loans without regard to how the loans are structured or how title is held.

Existing exposure is identified through the credit report, the fraud report, and the borrower's stated schedule of real estate owned. Refer to Section 4.2.1.2.

For the maximum condominium project exposure to any borrower, refer to Section 4.2.

4.11. Power of Attorney (POA)

Power of Attorney is allowed per Fannie Mae guidelines except in the following scenarios:

- Vesting in a Trust
- Vesting in an Entity
- Texas 50(a)(6) transactions
- Cash-out Refinance transactions

Where a POA is used, all the following must be verified:

- The initial Form 1003 was signed by the borrower executing the POA; the POA may execute closing documents only. Electronic signature by the borrower on the initial Form 1003 is acceptable.
- The POA is specific to the subject transaction and identifies the subject property
- The POA is dated on or before the note date
- The POA is notarized
- The POA is recordable in the jurisdiction in which the security instrument will be recorded
- The title underwriter has accepted the POA without exception
- The attorney-in-fact is not an interested party to the transaction

4.12. Rapid Acquisition

A single borrower must not have acquired and currently be financing more than 5 properties (including the subject property) in the 12 months prior to the application date.

The count under this section is determined independently of Section 4.9 and includes acquisitions regardless of how title is vested, including properties acquired in an entity and properties not appearing on the borrower's credit report.

Vacant land and properties owned free and clear are not included in the total count.

Transactions that exceed the limit in this Section, including the simultaneous acquisition of multiple properties in a single package, may be considered on an exception basis under Section 1.3 where the borrower's portfolio, liquidity, and experience support the request. The Borrower Portfolio Concentration Review in Section 4.2.1 must be completed and included with the exception request.

5. Credit Requirements

5.1. Age of Documentation - Credit

The maximum age of the credit report is 120 days prior to the note date. The age of the document is measured from the document date to the date of the Note.

A credit refresh/gap report or undisclosed debt notification (UDN) report within 30 days of the note date is required. Any new credit scores must be used for qualification, subject to Section 5.3. The credit refresh/gap or UDN report is not required on DSCR loans.

Where the credit refresh/gap or UDN report identifies new debt, a borrower letter of explanation is required and the payment must be included in the DTI calculation and, where residual income is required under Section 7.1, in the residual income calculation.

5.2. Credit Score

Credit scores must be produced under the Classic FICO score models. VantageScore 4.0 and FICO 10T scores are not accepted for qualification or pricing.

A minimum of 2 credit scores are required to be provided and used to determine the representative qualifying credit score for loan approval. At least one (1) borrower must have a minimum of two (2) credit scores. A borrower or guarantor with fewer than two credit scores is not used to determine the representative qualifying credit score, and where the representative score is taken from the primary wage earner, the primary wage earner must have at least two credit scores. A borrower with fewer than two credit scores may be included on the loan provided another borrower meets this requirement and the tradeline requirements of Section 5.5 are met.

Non-traditional credit report is not permitted.

Frozen credit. One (1) frozen credit bureau is permitted provided a minimum of two (2) credit scores are reporting and the representative score can be determined under this Section. Where two or more bureaus are frozen, the borrower must lift the freeze and the credit report must be re-pulled.

The representative qualifying credit score is determined as follows:

Scenario	Representative Score
1 borrower	Lower of 2 or the middle of 3 FICO scores
2 or more borrowers, Full Documentation, Alternative Documentation, and Asset Depletion	Primary wage earner's lower of 2 or middle of 3 FICO scores
2 or more borrowers, DSCR	The highest of the individual representative credit scores amongst all borrowers and guarantors, where each individual's representative score is determined as the lower of 2 or the middle of 3 FICO scores
Borrowers who are 50/50 owners of a business and income is equal	The higher of the two borrowers' representative credit scores, each determined as the lower of 2 or the middle of 3 FICO scores

If 2 of the 3 scores are identical, use the identical score as your mid score.

Asset Utilization with 2 or more borrowers: the representative score is the lowest of the individual representative credit scores amongst all borrowers, each determined as the lower of 2 or the middle of 3 FICO scores.

5.3. Rescore/Repull

A rapid rescore or a new credit report may be used to update the representative score where the change is supported by documentation retained in the loan file, including but not limited to the correction of an error, the payoff of a balance, the resolution of a disputed account, or the addition or removal of a borrower.

Where a credit report is repulled and returns a lower representative score, the lower score must be used for qualification.

5.4. Credit Report Requirements

A tri-merge residential mortgage credit report is required for each borrower. Refer to Section 5.1 for the age of the credit report and the credit refresh or undisclosed debt notification (UDN) requirement.

Refer to Section 5.2 for the required credit score model.

5.4.1. Mortgage / Rental History

For DSCR transactions, payment history is required on the subject property and the borrower's primary residence only. Any other mortgage reported on the credit report must reflect a maximum 1x30x12 payment history. All other real estate owned is not required to be disclosed on the Form 1003 and does not require a housing history.

For all non-DSCR transactions: minimum 12 months of housing payments required for all REO properties; for a property owned less than 12 months, the payment history for the full period owned is required. On all transactions, including DSCR, existing mortgage or rent payments must be current at the time of application and the month prior to closing.

Delinquent property taxes. Payoff of real estate taxes that are sixty (60) days or more past due is not a Rate Term use of proceeds; a refinance that pays such taxes from loan proceeds is a Cash-out Refinance (Sections 3.2 and 3.4.1). On any transaction type, property taxes on the subject property that are more than twelve (12) months delinquent as of the note date require an exception under Section 1.3.

Refinance transactions on the subject property: the payoff statement must show that the borrower is current or due in the month of funding. If the payment is due, the payoff statement must include that payment and show no 30-day late charges.

Refer to the Program Matrix for housing history requirements.

A private party VOM/VOR standing alone is not acceptable.

If a 12-month mortgage payment history is not included in the borrower's credit report/credit supplement, one of the following must be used to verify the borrower's housing payment history:

- Loan payment history from the servicer
- A copy of the fully executed mortgage note/lease agreement and proof of electronic transfer such as 12 months cancelled checks, bank statements, or pay histories (Zelle, Venmo, etc.) that clearly document the payment history for the most recent 12 months
- Verification of Mortgage (VOM)/Verification of Rent (VOR) from a 3rd party/Management Company
- Private party VOM/VOR and proof of electronic transfer such as 12 months cancelled checks, bank statements, or pay histories (Zelle, Venmo, etc.) that clearly document the payment history for the most recent 12 months

Where the terms of the existing note require no payment of any kind during the period (no amortized payment and no interest-only payment), a payment history is not required. Where any payment is due under the note, including an interest-only payment, the standard housing history applies.

Except as stated above for DSCR transactions, all financed properties must be properly documented for the purpose of documenting satisfactory mortgage payment history(ies).

Payment history may be waived in the following circumstances:

Circumstance	Required Documentation
The borrower owns or owned the property free and clear, for the period of free and clear ownership	Documentation supporting the free and clear status of the property, and proof that the property taxes are current
The Borrower is living rent-free with a spouse and is not obligated on the current mortgage for the current residence	Verification that the borrower is not obligated on the note
The Borrower is living rent-free with someone other than a spouse	See Section 5.4.2

5.4.2. Rent-Free and Less Than 12 Months Housing History

A borrower residing rent free, or with less than a 12-month housing history on the borrower's current residence, is eligible with the following restrictions:

- A "Rent-Free" letter (Exhibit 12.8) from the party providing the housing, or documentation of the portion of the 12-month history that exists
- Any available portion of the 12-month housing history must be paid as agreed
- A combination of rental history and mortgage history may be used to reach the twelve (12) month requirement; where a full 12-month history is documented in combination, the borrower is not subject to the restrictions of this Section
- DTI may not exceed 43% (not applicable to DSCR transactions, which do not calculate a DTI)
- LTV/CLTV may not exceed 80%

No reserves or minimum borrower contribution are required in addition to Sections 6.6 and 6.8.

This section does not apply to a borrower who owns their residence free and clear, or a borrower living rent-free with a spouse, where the borrower is not obligated on the current mortgage.

First time homebuyers residing rent free are eligible under this section.

5.5. Tradeline Requirements

DSCR: may be met on a combined basis. Refer to the FlexIQ Non-Agency DSCR Program Matrix.

Each borrower contributing income for qualifying must meet the minimum tradeline requirements. Option 3 (combined basis between Borrower and co-Borrower) is available on DSCR transactions only; Options 1, 2 and 4 are available on all documentation types.

If a Borrower has three credit scores reporting on credit, then the minimum credit tradeline requirement for that borrower has been met, unless the only tradelines present are authorized user accounts.

If a borrower has less than 3 FICOs, then the borrower must meet one of the following minimum tradeline requirements. Only one option must be met.

Option	Tradelines Required	Reporting Period	Additional Requirement
1	Three (3) current	At least 12 months	At least one currently open and active
2	Two (2) current	At least 24 months	At least one currently open and active
3	Three (3), combined between Borrower and co-Borrower	At least 12 months	At least one currently open and active
4	No fewer than eight (8) tradelines reporting	Established credit history of at least eight (8) years. At least one (1) tradeline open and reporting for a minimum of twelve (12) months	One (1) must be a mortgage or a documented rental history. A minimum of two (2) credit scores is required. Student loans may be counted in credit depth where in repayment and not deferred

Current housing not reporting on credit may be counted as an open tradeline if supported by bank records or a verification meeting Section 5.4.1.

Under Options 1, 2 and 3, tradelines may be open or closed; at least one must be currently open and active, and recent activity on the other tradelines is not required.

Deferred accounts, authorized user accounts, collection accounts, charge-offs, accounts discharged in bankruptcy, and mortgage accounts that ended in foreclosure, deed-in-lieu, short sale or pre-foreclosure sale may not be counted as tradelines.

Other than the accounts listed above, a tradeline with derogatory history may be counted toward the tradeline requirement. Derogatory history is addressed under Sections 5.8 and 5.9.

5.6. Credit Inquiries

DSCR: an inquiry letter of explanation is not required.

A borrower letter of explanation is required for all inquiries appearing within the most recent 90 days. The letter must state whether new debt was obtained. Any new debt must be verified and included in the DTI calculation.

5.7. Open 30-Day Charge Accounts

Open 30–day charge accounts (for example, AmEx), require the balance to be paid in full every month. For open 30-day charge accounts that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, the borrower must have funds to cover the account balance. The verified funds must be in addition to any funds required for closing costs and reserves.

If a DTI is calculated, then the following may be applied:

- If proof of a monthly payment is provided that is less than the outstanding account balance, then that monthly payment amount may be included in the calculation of the qualifying DTI.
- If sufficient liquid assets are not verified and no monthly payment can be documented, five percent (5%) of the outstanding account balance must be used as the monthly payment and included in the calculation of the qualifying DTI, and the basis for the amount used must be documented.

5.8. Significant Derogatory Credit Events

A Significant Derogatory Credit Event is defined as a short-sale (SS), deed-in-lieu (DIL), mortgage loan charge-off (MCO), pre-foreclosure, foreclosure (FCL), Chapter 7, 11, 13 Bankruptcy (BK), non-COVID or disaster Forbearance, Notice of Default (NOD), Lis Pendens, or 120-day mortgage late payment. A modification due to default is a Significant Derogatory Credit Event; however, a COVID or non-default modification is not a Significant Derogatory Credit Event. A written explanation for all derogatory credit is required.

The length of time is measured from the earlier of the date of discharge/dismissal of bankruptcy or the property resolution (completion) date, to the note date. Where a property was surrendered in a bankruptcy and the foreclosure completed at a later date, the bankruptcy discharge date is used.

The following apply when counting Significant Derogatory Credit Events:

- Defaulted first and second mortgages on the same property are considered one (1) event.
- A past due balloon payment is treated as a delinquency (1x30) and is not a Significant Derogatory Credit Event only where all of the following are met: the balloon is paid in full or refinanced within one hundred eighty (180) days of its maturity date; the file documents that the borrower made every scheduled payment as agreed through the maturity date; and the note holder confirms in writing (payoff statement or extension letter) that it will accept payment in full. A balloon that does not meet these conditions, or that is more than 180 days past maturity, is a Significant Derogatory Credit Event, seasoned from the date the balloon was paid.
- A forbearance from which the borrower has exited, with three (3) consecutive payments subsequently made as agreed, is not a Significant Derogatory Credit Event.

All bankruptcies must be discharged or dismissed a minimum of twelve (12) months prior to the note date. Refer to the Program Matrix for significant derogatory credit event seasoning time frames.

5.9. Derogatory Credit

DSCR: collections and charge-offs may be disregarded unless title is impacted. Refer to the FlexIQ Non-Agency DSCR Program Matrix.

- All past due accounts (revolving and installment) must be brought current. This guideline does not apply to collections and charge-offs.
- Collection Accounts and Charge-offs do not have to be paid in full if any one of the following applies:
  - Collections and charge-offs opened within the past three (3) years with a cumulative balance of $5,000 or less, not counting collections and charge-offs that need not be paid under another provision of this Section
  - Collections and charge-offs opened more than three (3) years prior to the note date, regardless of balance
  - Collections and charge-offs that have passed beyond the statute of limitation for that state (supporting documentation required)
- Where the cumulative balance of collections and charge-offs opened within the past three (3) years exceeds $5,000, the balance is not required to be paid off if either of the following applies:
  - The account is currently being paid under a payment plan and the payment is added to the DTI calculation; or
  - Verified liquid assets are sufficient to cover the balance in addition to funds required for closing and reserves.
- Medical collections are not required to be paid where their cumulative balance is less than $15,000. Where the cumulative balance of medical collections is $15,000 or more, they are subject to the other provisions of this Section.
- Judgments, liens, delinquent property taxes affecting title must be paid off at or prior to closing. Documentation of the satisfaction of these liabilities, along with verification of funds sufficient to satisfy these obligations, must also be maintained in the loan file. Judgments and liens, other than federal or state tax liens (Section 7.2.2), that do not affect title to the subject property are not required to be paid, provided any associated payment is included in the DTI calculation.
- Federal and state income tax installment agreements: refer to Section 7.2.2.
- A disputed tradeline reflecting a zero balance and no derogatory history may be disregarded. A disputed tradeline with a balance or derogatory history must be resolved, or the loan file must document the credit analysis supporting the decision without reliance on the disputed status.
- Credit Counseling (CCCS) enrollment is allowed when a minimum of twelve (12) months have elapsed on the plan and evidence of timely payments for the most recent twelve (12) months is provided.
  - A letter from the CCCS administrator allowing the borrower to seek financing on a new home while enrolled in the plan is required.
  - If a completion date is not shown on the credit report, verification from the counseling agency establishing the date of completion is required.

6. Assets

6.1. Verification of Eligible Assets

Where FlexIQ Guides are silent refer to Fannie Mae guidelines for verification of asset requirements not addressed below.

Assets must be liquid or capable of liquidation without restriction by the borrower.

Asset Type	Down Payment / Closing Costs	Reserves
Checking, savings, money market	100%	100%
Certificates of deposit	100%	100%
U.S. savings bonds	100% if matured; 80% if not matured	100%; liquidation not required
Publicly traded stocks, bonds, mutual funds (excluding exchange-traded funds holding cryptocurrency, Section 6.10)	100%, liquidation required for funds to close unless the 20% test below is met	100%, liquidation not required
Foreign assets (accounts held outside the United States)	Section 6.5	Section 6.5
Vested retirement accounts (IRA, Keogh, 401(k), 403(b))	100% of the vested balance at or after age 59½, less outstanding loans; 80% of the vested balance if under age 59½, with outstanding loans and applicable withdrawal penalties then deducted	100%, less outstanding loans; liquidation not required and withdrawal terms are not required
Pension plans	100% of vested amounts accessible within 30 days	100% of vested amount; liquidation not required and withdrawal terms are not required
Vested stock options	100% where vested, immediately exercisable, and available to the borrower	Refer to Fannie Mae requirements
Trust accounts, revocable trust	100%	100%
Trust accounts, irrevocable trust	Permitted where the borrower is the beneficiary and has documented immediate access	Same
Life insurance cash surrender value	100%, less any outstanding policy loans	Same
Annuities	60% of vested amounts accessible within 30 days	60% of vested amounts accessible within 30 days
Cryptocurrency	Section 6.10	Section 6.10
Business funds	Section 6.4	Section 6.4
Net proceeds from the sale of real estate: copy of the final Closing Disclosure and evidence of the funds deposited. For a simultaneous closing, the final Closing Disclosure from the sale and the closing agent's confirmation that the net proceeds are being wired to the subject closing. Net proceeds from the sale of business assets: final settlement statement or bill of sale and evidence of the funds deposited	100%	100%
1031 exchange proceeds	100%	Not permitted
Cash out proceeds from the subject transaction	Not applicable	100%, regardless of LTV
Gift funds	Section 6.6	Not permitted

Other than for cryptocurrency (Section 6.10), where the account balance exceeds the funds required to close by 20% or more, evidence of liquidation is not required.

Margined/Pledged/Collateral assets that are allocated to a loan are not allowed for funds to close unless liquidated. After liquidation, any funds still available to be borrowed (the value of the Margined/Pledged/Collateral asset reduced by the outstanding loan balances and accrued interest and fees) may be used for reserves.

6.2. Age of Documentation - Assets

The most recent asset statements must be dated no more than 120 days earlier than the date of the Note. The age of the document is measured from the document date to the date of the Note. Utilization of a quarterly statement is permissible.

Asset statements must cover 30 days of account activity. The most recent month statement or the most recent quarterly statement is required for all Products. A Verification of Deposit may be used in lieu of statements.

All assets from the borrower(s) must be disclosed and verified.

Refer to the Asset Depletion and Asset Utilization sections (Section 8.5) for additional requirements.

There is no requirement that asset statements be dated within any period of the loan application date.

6.3. Non-Borrowing Spousal Accounts

Funds held jointly with a non-borrowing spouse are considered the Borrower's funds.

Funds held jointly with any other non-borrowing person may be considered if the joint account holder is also a title holder on the subject property, or a written verification of deposit or an access letter is provided showing the Borrower has authorized access to all funds as though they solely belong to the Borrower.

Accounts held solely in the name of a non-borrowing spouse may be used for down payment and closing costs only when the non-borrowing spouse provides a signed access letter and the funds are documented as transferred to the borrower's account or directly to the closing agent. Such funds may not be used to satisfy reserve requirements.

6.4. Business Funds as Assets

DSCR: 100% of entity assets where the entity is on title. On DSCR transactions vested in the individual borrower, the requirements below apply. Refer to the FlexIQ Non-Agency DSCR Program Matrix.

Business funds may be used for down payment, closing costs and reserves when all the following are met:

- The borrower must be at least 25% owner of the business, with the ownership percentage evidenced by one of the documents listed in Section 8.4.1.1
- Available business funds must be multiplied by the borrower's ownership percentage
- Excluding DSCR loans, when business funds are being used for down payment or closing costs, and the borrower is using self-employed income from that business to qualify, documentation to prove that the withdrawal of funds will not negatively impact the business is required. A cash flow analysis of the business bank statements in the loan file satisfies this requirement.
    - A letter from a CPA, EA, CTEC registrant, tax attorney or licensed tax preparer confirming that the withdrawal of the funds will not negatively impact the business is also acceptable to satisfy the requirement above.

When the borrower owns less than 100% of the business, all remaining owners must provide a signed and dated access letter acknowledging the transaction and confirming the borrower's access to the business funds. The access letter does not increase the usable funds above the borrower's ownership percentage.

6.5. Foreign Assets

When the source of funds is, or otherwise originates from, asset(s) located outside the United States and its territories, one of the following must be met for funds to close:

- The funds must be transferred into a United States or State regulated financial institution in the borrower's name at least 10 days prior to closing and the funds must be currently available to the borrower; or
- The funds are held in a foreign financial institution that maintains U.S. branches insured by the FDIC; or
- The verified funds for closing are wired directly to the closing agent prior to or as of the note date. The wire must identify the bank name, accountholder name, and account number, and the originating bank must match the institution holding the assets verified in the loan file.

Reserves may remain in a foreign financial institution and are not required to be transferred to a U.S. account.

Documentation requirements:

- Two (2) most recent statements (all pages) from a regulated financial institution, with assets seasoned a minimum of sixty (60) days
- Foreign assets must be verified in U.S. Dollar equivalency at the current exchange rate via either www.xe.com or the Wall Street Journal conversion table, dated within ten (10) days of the calculation
- All documents of foreign origin must be filled out in English or the originator must provide a translation, attached to each document, and warrant that the translation is complete and accurate. Translations are to be completed by a disinterested 3rd party evidenced with a seal or stamp from an official translator; artificial intelligence translations are not acceptable
- Assets from countries under OFAC sanctions are not permitted

- The transfer trail must establish that the funds belonged to the borrower before transfer and must trace the funds from the foreign institution to the U.S. financial institution or closing agent. Any intermediary account must be documented.

6.6. Gift Funds

DSCR: purchase transactions only; minimum 1.00 DSCR required; gift of equity not permitted. Refer to the FlexIQ Non-Agency DSCR Program Matrix.

Gift funds can be used for down payment and closing costs per the below requirements. Gift funds cannot be counted towards reserves.

Down payment and closing costs funds received from a non-borrowing purchaser, who is on the purchase contract and will sign the deed and security instrument, are not considered a gift; however, existence of the funds is required. A gift letter is not required. Funds received from a non-borrowing purchaser cannot be used as reserves. Gift funds and gift of equity are not allowed on Asset Depletion or Asset Utilization, or under the Written Verification of Employment documentation option.

Occupancy	Minimum Borrower Contribution
Primary Residence and Second Home, LTV/CLTV ≤ 80%	None. 100% gift funds permitted.
Primary Residence and Second Home, LTV/CLTV > 80%	5%
Investment Property, including DSCR, LTV/CLTV ≤ 75%	None. 100% gift funds permitted.
Investment Property, including DSCR, LTV/CLTV > 75%	10%

The following documentation is required:

- A gift letter identifying the donor, the donor's relationship to the borrower, the amount, and stating that repayment is not expected
- Verification that sufficient funds to cover the gift are in the donor's account or have been transferred to the borrower or the closing agent, documented by one of the following: a copy of the donor's check and the borrower's bank statement; a copy of the donor's withdrawal slip and the borrower's deposit slip; evidence of the electronic transfer of funds from the donor's account to the borrower's account or to the closing agent; or a copy of the donor's check to the closing agent with the final Closing Disclosure reflecting the gift as funds paid on the borrower's behalf. A donor account statement is one acceptable form of verification and is not required where the transfer is documented

Eligible donors are a relative by blood, marriage, adoption, or legal guardianship, or a domestic partner or fiancé. Other than a family member providing a gift of equity under this Section, the donor may not be, or be affiliated with, the property seller, builder, real estate agent, or any other interested party to the transaction.

Gift of Equity:

- Purchase of Primary Residence
- Must be from a family member
- Must be reflected on the final Closing Disclosure and clearly labeled as a gift of equity. A gift of equity from an acceptable donor is not an interested party contribution and is not subject to the limits in Section 3.8; the seller may also provide interested party contributions up to the Section 3.8 limit
- A gift letter meeting the requirements above is required. Evidence of the donor's funds and of the transfer is satisfied by the Closing Disclosure credit
- A 12-month payment history on any existing mortgage securing the subject property is required to confirm the sale is not a foreclosure bailout
- The borrower contribution requirements above apply. There is no additional LTV limitation applicable to a gift of equity.

Trade Equity is not allowed.

6.7. Large Deposits

DSCR: no large deposit threshold applies; refer to the DSCR row below.

A large deposit is a single deposit that exceeds the threshold below. The threshold depends on the documentation type used to qualify the loan.

Documentation Type	Large Deposit Threshold
Bank Statement (personal or business, 12 or 24 month), Profit and Loss Only, and Profit and Loss with Two Months Bank Statements	A single deposit exceeding 100% of the total monthly qualifying income, regardless of the source of the deposit. Business accounts that are not used to qualify income are not subject to large deposit analysis.

Documentation Type	Large Deposit Threshold
Full Documentation, IRS Form 1099, Written Verification of Employment, and Asset Depletion	A single deposit exceeding 50% of the total monthly qualifying income. Asset Utilization transactions have no qualifying income; on those transactions the 120-day seasoning requirement in Section 8.5.5 applies in place of a threshold.
DSCR	No threshold applies. Deposits must be reviewed to determine whether any deposit appears to be a gift or an undisclosed liability; where it does, the loan file must contain the documented rationale, a borrower letter of explanation, or the additional documentation needed to resolve it.

Other than on DSCR transactions, large deposits require a borrower letter of explanation. The explanation must be consistent with the borrower's documented profile and, where the deposit is into an account used for business, consistent with the business profile. Where the letter of explanation is sufficient, no further sourcing is required to use the funds for down payment, closing costs or reserves. Whether a large or unusual deposit is included in bank statement qualifying income is governed by Section 8.4.2.

A deposit supported by its own documentation, including the sale of an asset, a tax refund, an insurance settlement, or a documented gift, is sourced by that document.

Any deposit into a personal account deemed to derive from a source other than the business (including rents, Social Security income, joint account holder wage income, and IRS refunds) must be excluded from a bank statement income analysis. Refer to Sections 8.4.5 and 8.4.6.

6.8. Reserves

Reserve requirements are published on the Program Matrix and are based on the PITIA of the subject property. Reserves for a loan with an Interest-Only feature will be calculated based upon the interest only payment.

Total required reserves are capped at fifteen (15) months, inclusive of any additional requirement below.

No additional reserves are required for other financed properties.

Reserve requirements are waived on a Rate Term transaction secured by a primary residence or second home where all of the following are met: the loan amount is less than $1,500,000; the mortgage history is 0x30x12 on all mortgages, with a full twelve (12) month payment history on the current housing payment; the subject property housing payment is decreasing; the borrower has no prior bankruptcy, foreclosure, short sale, deed-in-lieu, pre-foreclosure, or mortgage charge-off; and the DTI does not exceed 50%. The waiver is not available on investment property or Cash-out Refinance transactions. For DSCR transactions, refer to Section 10.6.

This waiver and the DSCR waiver in Section 10.6 apply to the Program Matrix reserve requirement only. The additional reserve requirements in the table below, including the First Time Investor requirement in Section 10.3.2, are not waived and continue to apply.

Where a condition below applies, the reserve requirement shown is the minimum total reserve requirement for the loan, inclusive of the Program Matrix requirement; where the Program Matrix requires more, the Program Matrix requirement applies:

Condition	Minimum Total Reserves
First Time Investor, DSCR (Section 10.3.2)	12 months total, inclusive of the Program Matrix requirement
DTI in excess of 50% (Section 7.1)	6 months minimum
Condotel (Section 9.1.3)	9 months

Cash-out proceeds are allowed to be used as reserves regardless of LTV. Incidental cash back on a Rate Term transaction may not be used as reserves (Section 3.2). Funds verified to cover open 30-day charge account balances under Section 5.7 are in addition to reserves.

Unacceptable sources of reserves: Gift funds; Proceeds from 1031 Exchange; Proceeds from unsecured/revolving debt or cash advances such as credit cards.

6.9. Ineligible Assets

The following assets are ineligible for down payment, closing costs and reserves:

- 529 or similar college fund
- Builder profits
- Cash advance on credit card
- Cash for which the source cannot be verified (cash on hand)
- Down payment assistance / Grant funds

- Employer Assistance Assets
- Equity in real estate including current home
- Private securities or any non-publicly traded assets
- Proceeds from an unsecured Loan
- Proceeds from unsecured/revolving debt or cash advances
- Reverse 1031 exchange
- SBA loans or paycheck protection funds
- Salary advance
- Seller real estate tax credit
- Sweat equity (contribution to the construction or rehabilitation of a property in the form of labor or services rather than cash)
- Trade equity
- Non-vested stock, non-vested stock options and non-vested restricted stock
- Stocks and bonds not publicly traded
- Funds held in a blind trust or a land trust (including an Illinois land trust)
- Unverifiable source of funds
- Assets from countries under OFAC sanctions

Marijuana Related Business (MRB) Assets. Federal law restricts marijuana related activities and therefore assets from these sources are not permitted. Wages earned as a W-2 employee and eligible under Section 8.3.3 are not MRB assets. Related activities include:

- Possession of cannabis or cannabis seeds
- Processing
- Growing
- Harvesting/Cultivation
- Testing
- Packaging/Delivery
- Transportation
- Wholesale or Retail sales, including the sale of marijuana related paraphernalia and other herbal products (such as kratom)

Note: assets eligible for Asset Qualification income under Section 8.5.3 are determined separately and may differ from this list.

6.10. Cryptocurrency

Bitcoin and Ethereum held on an established U.S.-regulated exchange are eligible for down payment, closing costs, reserves, and Asset Qualification subject to this section.

All other digital assets are ineligible, including stablecoins, exchange-traded funds holding cryptocurrency, privacy coins, meme coins, and non-fungible tokens.

Use	Treatment
Reserves	60% of the current U.S. dollar valuation; liquidation not required
Down payment and closing costs	100% of actual U.S. dollar proceeds after liquidation and deposit to a U.S. account in the borrower's name or remittance to the closing agent
Asset Qualification	50% of the current U.S. dollar valuation; liquidation not required

The following cryptocurrency documentation is required:

- The asset must be held on an established U.S.-regulated exchange in an account owned and controlled by the borrower. Self-custody wallets, offshore exchanges, and decentralized platforms are not acceptable.

- An exchange statement, account report, or verification dated within thirty (30) days of the Note Date that identifies the borrower and the holdings
- Current U.S. dollar valuation at the exchange's published rate as of the date of the most recent verification
- Where liquidated, evidence of the sale transaction and the deposit of proceeds into a U.S. account in the borrower's name or delivery to the closing agent

Assets held on an exchange, or in a jurisdiction, subject to OFAC sanctions are not permitted.

7. Liabilities

7.1. Debt-to-Income Ratios

Refer to the Program Matrix for the maximum DTI.

DTI in excess of 50%, to a maximum of 55%, is permitted on a primary residence only, to a maximum 80% LTV/CLTV, with a minimum 700 representative credit score, minimum six (6) months reserves in total, inclusive of the Program Matrix requirement, and residual income of 1.5 times the amount required. Available on Full Documentation (including IRS Form 1099) and 12 or 24 month personal or business Bank Statement documentation only. Not available on Profit and Loss Only, Profit and Loss with Two Months Bank Statements, Asset Depletion, Asset Utilization, or the Written Verification of Employment documentation option. Not available where any borrower is a First Time Homebuyer; the every-borrower test in Section 4.5 does not apply to this limit.

Residual income is required only when the loan is an HPML or when the DTI exceeds 43%. When required, residual income must be at least $2,000 per month, regardless of household size. Residual income is not required on DSCR transactions.

Residual income is calculated as total monthly qualifying income less total monthly debt obligations including the subject PITIA.

Asset Utilization transactions do not calculate a DTI; residual income is required on every Asset Utilization transaction under Section 8.5.2. Refer to Section 8.5 for the distinction between Asset Depletion and Asset Utilization.

7.2. Monthly Debt Obligations

Refer to Fannie Mae guidelines for monthly debt obligations not addressed below.

Debt Type	Treatment
Installment	Use the payment reflected on the credit report. May be excluded where 10 or fewer payments remain. Debts may be paid down to 10 or fewer payments remaining to qualify with the source of funds documented.
Lease	Must be included regardless of the number of payments remaining.
Revolving	Use the payment reflected on the credit report. Where no payment is shown, use 5% of the outstanding balance.
Authorized user	May be excluded where the borrower is not the primary obligor.
Deferred installment	Other than student loans (Section 7.2.1), use the payment that will be due at the end of the deferment period. Where the payment is unknown, use 5% of the balance.
Timeshare	Treat as installment debt.
Open 30-day charge accounts	Refer to Section 5.7.
Solar lease or power purchase agreement	Included in the DTI except where excluded under Section 9.1.8.
PACE or PACE-like assessment	Not permitted; must be paid in full at or prior to closing. Refer to Section 9.1.9.
Alimony, child support and separate maintenance paid	Follow Fannie Mae guidelines.
Contingent liabilities and court-ordered assignment of debt	Follow Fannie Mae guidelines.

7.2.1. Student Loans

Situation	Payment
A monthly payment greater than $0 is reporting, including a payment under an income-driven repayment plan	The reported payment
Deferred, in forbearance, or reporting $0	0.5% of the outstanding balance
The borrower is on a documented income-driven repayment plan and the actual monthly payment is verified as $0	$0

To use a $0 income-driven repayment payment, documentation from the servicer confirming enrollment in the plan and stating the current monthly payment amount is required. A credit report reflecting $0 is not sufficient.

7.2.2. Federal and State Income Tax Installment Agreements

Delinquent federal or state income taxes subject to an approved installment agreement are acceptable, and the tax balance is not required to be paid at or before closing, where all of the following are met:

- A copy of the approved installment agreement, evidencing its terms, is in the loan file
- The agreement is current, with no delinquency under its terms; evidence of the most recent payment is documented
- The monthly payment required under the agreement is included in the debt-to-income ratio
- No federal or state tax lien has been filed against the borrower or against any property owned by the borrower

Where any condition is not met, the delinquent taxes must be paid in full at or before closing and the payoff documented. Subordination of a tax lien is not permitted as an alternative to these requirements. Section 5.9 refers to this Section for federal and state income tax installment agreements.

7.3. Business Debt in Borrower's Name

When a self-employed borrower claims that a monthly obligation that appears on their personal credit report (such as a Small Business Administration loan) is being paid by the borrower's business, the loan file must verify that the obligation was actually paid out of company funds and that this was considered in the analysis of the borrower's business.

The account payment does not need to be considered as part of the borrower's DTI ratio if all of the following are met:

- The account in question does not have a history of delinquency; **and**
- The analysis of the business documented in the loan file took payment of the obligation into consideration, meaning the analysis reflects a business expense related to the obligation (such as an interest expense, and taxes and insurance, if applicable, equal to or greater than the amount of interest that one would reasonably expect to see given the amount of financing shown on the credit report and the age of the loan); **and**
- The business provides acceptable evidence that the obligation was paid out of company funds. Option A or Option B is acceptable evidence; Option C is acceptable only together with Option A or Option B:

Option	Acceptable Evidence
A	Six (6) months of canceled company checks, business bank statements, or transaction records evidencing payment from business funds
B	Business or personal tax returns reflecting the obligation as a business expense deduction
C	Documentation that the business holds liquid assets sufficient to cover twelve (12) months of the obligation

The account payment must be considered as part of the borrower's DTI ratio in any of the following situations:

Situation	Treatment
The business does not provide sufficient evidence that the obligation was paid out of company funds, or the analysis of the business does not reflect any business expense related to the obligation, in which case it is reasonable to assume that the obligation has not been accounted for in the analysis	Include the payment in the DTI
The account in question has a history of delinquency	Include the payment in the DTI. To ensure the obligation is counted only once, adjust the net income of the business by the amount of interest, taxes, or insurance expense, if any, that relates to the account in question.

7.4. Obligations Not Appearing on the Credit Report

All housing and mortgage-related obligations, property taxes, insurance, homeowners association dues, ground rent, and special assessments must be included in the DTI calculation whether or not they appear on the credit report.

The borrower's schedule of real estate owned, the title commitment, the fraud report, and the gap credit report (where required under Section 5.1) must be compared to identify undisclosed obligations. Any undisclosed obligation requires a borrower letter of explanation and must be included in the DTI calculation.

8. Income & Employment

8.1. General Information

Documentation program selection. Full documentation income that is not associated with self-employment may be combined with alternative documentation income (Section 8.4). When more than one documentation option is used, including full documentation income combined with alternative documentation income or with Asset Depletion (Section 8.5.1), the loan is qualified and priced to the documentation option supporting the largest percentage of total qualifying income. The documentation option selected and the income calculation under it must be stated in the loan file.

Qualifying income must be stable and documented in accordance with the selected documentation option. Continuance is evaluated on the nature of the income and the supporting documentation. Where the income has no defined expiration date and the required history of receipt is documented, no additional evidence of continuance is required unless the loan file indicates otherwise. Where the income has a defined expiration date, or depends on the depletion of an asset or another limit on the benefit, the income must be expected to continue for at least three (3) years from the note date.

Marijuana Related Business (MRB) income is subject to Section 8.3.3. Income derived from an illegal source in accordance with all applicable federal, state, and local laws, rules, and regulations is ineligible.

Residual income is required if the loan is an HPML or if the DTI exceeds 43%. Refer to Section 7.1.

Additional Income. If the 1003 reflects additional income, such as alimony or child support, that income may be considered per Fannie Mae guidelines. W-2 wages are documented under Section 8.3.1.

8.2. Age of Documentation - Income

The most recent income documentation including paystubs and P&L statements must be dated no more than 120 days earlier than the date of the Note, or within any shorter period stated for a specific document (for example, the AirDNA report under Section 8.6.2.3). The age of the document is measured from the document date to the date of the Note.

There is no requirement that income documentation be dated within any period of the loan application date.

8.3. Full Documentation

Onity Mortgage Corporation will allow 12 month and 24 month income documentation and calculation. Both options are available on the same Program Matrix. No LTV, credit score, or loan amount overlay applies to the 12 month option.

8.3.1. Salaried/Wage Earner Income (Full Doc)

This section applies to wage earner income only. For a 12-month income calculation, the Borrowers must have two (2) years history of employment in same industry and 1-year continuous employment at current job.

Tax returns alone are not acceptable documentation for a salaried or wage earner borrower. Current earnings must always be verified by one of the following:

Verification	Requirement
Paystub	Most recent paystub, including year-to-date earnings covering a minimum of 30 days
Written Verification of Employment	A WVOE reflecting year-to-date earnings, together with **the most recent paystub, as set out in the table below. An Electronic Verification of Employment meeting the table below may be used without** a paystub.

A loan may not be qualified on tax returns or W-2s alone.

The following table summarizes the required documentation for wage earner borrowers. One of the first three documentation options below must be provided; Personal Tax Returns are required in addition where other income sources are used to qualify, as stated in that row:

Required Documentation	24 Month Full Doc Wage Earner	12 Month Full Doc Wage Earner
Paystubs and W-2s	Most recent paystub including year-to-date earnings (covering minimum of 30 days) and prior two years' W-2s. A year-end paystub may be accepted in lieu of the most recent W-2 if loan is closing in January. W-2 transcripts may be used in lieu of W-2s.	Most recent paystub including year-to-date earnings (covering minimum of 30 days) and prior one year' W-2s. A year-end paystub may be accepted in lieu of the most recent W-2 if loan is closing in January. The paystub must include sufficient information to appropriately

Required Documentation	24 Month Full Doc Wage Earner	12 Month Full Doc Wage Earner
		calculate income. W-2 transcript may be used in lieu of W-2.
Electronic Verification of Employment (i.e., The Work Number)	Electronic VOE must reference the most recent two full years of income and must include year-to-date earnings covering a minimum of thirty (30) days.	Electronic VOE must reference the prior year and most recent year-to-date income; the year-to-date earnings must cover a minimum of thirty (30) days.
Written Verification of Employment (WVOE) and Paystub	WVOE and most recent paystub including year-to-date earnings (YTD must cover minimum of 30 days). Sufficient information must be provided to verify the most recent two full years of income.	WVOE and most recent paystub including year-to-date earnings (YTD must cover minimum of 30 days). WVOE only needs to reference the prior year and most recent year-to-date income.
Personal Tax Returns	Most recent 2 years 1040's including all schedules when qualifying other income sources in addition to wage earner income where 2 years tax returns are required per Fannie Mae guidelines (e.g. Interest, dividends, capital gains, variable trust income, etc).	Most recent 1 year 1040's including all schedules when qualifying other income sources in addition to wage earner income where 1 year tax returns are required per Fannie Mae guidelines (e.g. Rental income, fixed trust income, notes receivable, royalty income, etc).

Seasonal income, irregular pay, and borrowers employed by family members are eligible under both the 24 month and 12 month options. Interest, dividends and capital gains are eligible under both options and must be qualified using 24 months of income documentation.

Additional income requirements:

- A Written Verification of Employment (WVOE) is required if needed for the analysis of overtime, bonus or commission.
- Seasonal or irregular pay can be used to qualify the loan if the borrower can demonstrate prior two years of receipt, as well as the likelihood that it will continue for the next three years. Employer must confirm the upcoming current year anticipated hours of seasonal/irregular employment, months anticipated that the borrower will work, etc.
- A family employment relationship must be disclosed and the income verified through the employer's tax returns or payroll records. The borrower's most recent two (2) years of W-2s and personal tax returns are required under both the 24 month and 12 month options.
- Tax transcripts: A signed Form 4506-C is required. IRS third-party tax transcripts must be obtained for any income types that require tax returns or where red flags exist in the loan file. Transcripts are not required for wage earner income. Where wage income is combined with Alternative Documentation income, whether a Form 4506-C and transcripts are required for the wage earner is stated under the Alternative Documentation option used (Section 8.4).
- Follow Fannie Mae guidelines for additional employment documentation requirements.
- Follow Fannie Mae guidelines for gaps in income.
- All documents must meet the Age of Documentation - Income requirements.
- A Verbal Verification of Employment is required.

Income Calculation:

- Follow Fannie Mae guidelines for calculating wage earner income.
- The income must be stable and likely to continue. If the income is declining, refer to Section 8.3.2.4 Declining Income.

8.3.2. Self-Employed Income (Full Doc)

Whether a year-to-date profit and loss statement, and a balance sheet for partnerships, S-corporations and corporations, is required follows the Fannie Mae Selling Guide.

8.3.2.1. Self-Employment History

Income from self-employment is considered stable and effective if the borrower has been self-employed for two or more years.

Less than 2 years self-employment history can be considered where either of the following applies:

- The borrower has documentation of a minimum of three years employment history in the same line of work, or one year of previous successful employment in the same line of work and two years of formal education or training in the same line of work; or
- The borrower has at least two (2) years of documented prior employment in the same line of work and industry.

Less than one year may not be considered as effective income. No LTV or credit score overlay applies to a borrower with less than 2 years but more than 1 year of self-employment history.

Length of ownership may be documented with the business license, formation documents, a letter from a tax professional meeting Section 8.4.1.2, a third-party business listing, or other reasonable evidence of business activity.

8.3.2.2. Self-Employment Documentation Requirements

If a borrower has 25% or more ownership interest in any business, they are considered self-employed. A borrower qualifying under Section 8.4.5 or 8.4.6 with the ownership percentage those Sections permit is treated as self-employed for that option. The business may be a sole proprietorship, general partnership, limited partnership, corporation, or S-corporation.

When income from the borrower's self-employed business is used to qualify, personal & business tax returns (including all schedules and K-1's) plus most recent year and YTD Profit and Loss Statement (P&L) prepared by a CPA, or the borrower, are required where the Fannie Mae Selling Guide requires them (Section 8.3.2); the YTD P&L shown in the table below applies on the same basis.

The following table summarizes the required documentation for self-employed borrowers:

Required Documentation	24 Month Full Doc Self-employed	12 Month Full Doc Self-employed
Personal Tax Returns	Most recent 2 years Form 1040 including all schedules and YTD P&L. Interest, dividends and capital gains must be qualified using 24 months of income documentation.	Most recent 1 year Form 1040 including all schedules and YTD P&L. Interest, dividends and capital gains must be qualified using 24 months of income documentation.
Partnership Returns	Most recent 2 years Form 1065 (Partnership) or Form 1120S (S-Corp) including Schedule K-1's and YTD P&L.	Most recent 1 year Form 1065 (Partnership) or Form 1120S (S-Corp) including Schedule K-1's and YTD P&L.
K-1s	Most recent 2 years PLUS YTD P&L	Most recent 1 year PLUS YTD P&L
Corporate Tax Returns	Most recent 2 years Form 1120 and YTD P&L	Most recent 1 year Form 1120 and YTD P&L

Under the 24 month option, where the borrower's self-employed business has been in operation at least five (5) years, one (1) year of tax returns is acceptable.

Additional income requirements:

- The P&L may be audited or unaudited but must be signed and dated by the preparer and the borrower. The P&L is required to ensure that the income is stable and expected to continue; it may not be used for qualifying the borrower. The P&L must report business revenue, expense, and net income up to and including the most recent month preceding the loan application date.
- A YTD P&L is not required for a business in which the borrower holds 25% or more ownership where the business income is positive and is not used to qualify.
- Self-employed paying themselves W-2 or K-1: The ordinary income from the borrower's business multiplied by the borrower's ownership percentage must be used to qualify along with any W-2 wages that they pay themselves. Double-counting is not allowed.
- Tax transcripts:
  - A signed 4506-C and IRS Third party Tax Transcripts must be obtained during the loan process.
  - Business tax transcripts are not required if the net business income is validated on the Borrower's 1040s.
  - In the case where taxes have been filed and the tax transcripts are not available from the IRS, the IRS response to the request must reflect "No Record Found" and be present in the loan file.
    - Must document that taxes have been filed via evidence of e-filing, tax refund, or proof of payment
    - Evidence of any IRS filing extensions must also be present in the loan file
- A 4506-C and transcripts are not required under the Bank Statement, Profit and Loss Only, Written Verification of Employment, or Asset Qualification documentation options, except where Sections 8.4.3, 8.4.5 and 8.4.7 require them for a co-borrower qualifying with full income documentation, and except that a signed Form 4506-C is required under the Commingled Bank Account option (Section 8.4.6).
- All documents must meet the Age of Documentation - Income requirements.
- A Verbal Verification of Employment is required.

Income Calculation:

- A cash flow analysis must be prepared for all self-employed borrowers. Fannie Mae Form 1084, or similar form, must be used and all instructions followed to document self-employed income.

- The income must be stable and likely to continue. If the income is declining, refer to Section 8.3.2.4 Declining Income.

8.3.2.3. Secondary Businesses

A borrower with income from more than one self-employed business may use all such income, subject to the following:

- Each business must independently meet the applicable ownership and history requirements in Sections 8.3.2.1, 8.3.2.2 and 8.4.1.1.
- Where bank statement documentation is used, separate business accounts may be used for separate businesses, or a personal account receiving business deposits from more than one business account may be used under Section 8.4.6 where the deposits are clearly matched to each business. A true commingled account may carry only one business (Section 8.4.6).
- Where deposits cannot be matched to a specific business, those deposits may not be used to qualify.
- A business generating a loss must be included, and the loss reduces total qualifying income, unless the business is documented as closed by a final return or dissolution filing.

8.3.2.4. Declining Income

Where the most recent period reflects any decline from the prior period, the lower figure must be used. The higher figure may be used only where the decline is documented as non-recurring, supported by a written explanation and corroborating evidence. A letter of explanation detailing the reason for the decline and the possibility of further income deterioration will also be required. Bank statement qualification: Statements should show a trend of ending balances that are stable or increasing over time. Withdrawals consistently greater than deposits will be considered declining cashflow/income.

8.3.3. Marijuana Related Business (MRB) Income

A Marijuana Related Business (MRB) is any business involved in the possession of cannabis or cannabis seeds, or in growing, harvesting, cultivation, transportation, processing, testing, packaging, delivery, or the wholesale or retail sale of cannabis, cannabis seeds, or marijuana related paraphernalia and other herbal products such as kratom.

Self-employment income from an MRB is ineligible at any ownership percentage. This includes any borrower who is an owner, member, partner, or shareholder of an MRB, and any borrower paid on IRS Form 1099 by an MRB. No Alternative Documentation option in Section 8.4 may be used to qualify MRB income.

A borrower employed by an MRB and paid as a W-2 employee may use that income to qualify, documented in accordance with Section 8.3.1.

Assets derived from a Marijuana Related Business are ineligible. Funds accumulated from W-2 wages eligible under this Section are not MRB assets. Refer to Section 6.9.

Income derived from any other source that is illegal under applicable federal, state, or local law remains ineligible.

8.3.4. Verbal Verification of Employment (VVOE)

A verbal verification of employment is required for each borrower using employment or self-employment income to qualify. For properties subject to Section 9.5 (Disaster Areas), refer to that Section for additional verification of employment requirements.

8.3.4.1. Wage Earner

The Verbal Verification of Employment is required for all borrowers using salaried income to qualify and **must be completed within 10 calendar days prior to the note date**.

The employer's contact information must be independently verified before the call is made. A phone number and, if possible, an address for the borrower's employer must be independently verified by using a telephone book, the Internet, directory assistance, an online business directory (Superpages, Yellowbook, Yellowpages or equivalent), or by contacting the applicable licensing bureau. **A phone number supplied by the borrower or appearing only on the application may not be relied on.**

Document the conversation. The documentation must include all of the following:

Element	Requirement
Lender contact	Name and title of the person who confirmed the employment for the lender
Employer contact	Name and title of the person who completed the verification for the employer
Date	Date of the call
Source	**The phone number, and the method and source used to obtain it**

Element	Requirement
Employment status	The borrower's current employment status as confirmed

Alternative Methods to Verify Employment.

Any one of the following may be obtained in place of a verbal verification.

Method	Requirements
Written verification	A written verification, **other than an additional paystub**, confirming the borrower's current employment status. Must include the name and title of the person who completed the verification for the employer.
Email exchange with the employer	From the employer's work email address. **Due diligence is required to confirm that the email address for the employer is accurate.** Examples of due diligence include, but are not limited to: a search of the domain name on the employer website, reviewed for a match to the employer email address; the employer directory on the internet; or other professional networking or business profile websites. The email exchange must include: the borrower's name and employer's name; the name, title, and work email address of the individual contacted at the employer; the date of contact; and the borrower's current employment status.
Paystub or bank statement	Dated within 15 business days prior to the note date. Must reflect information for **the most recent expected pay period based on the date it is provided and the borrower's pay cadence**, and **must not include any information indicating the borrower may not be actively employed**.
Union verification	Where the borrower is a union member who works in an occupation that results in a series of short-term job assignments — such as a skilled construction worker, longshoreman, or stagehand — **and the union facilitates the borrower's placement in each assignment**, a verbal VOE from the union may be obtained.
Third-party employment verification vendor	Where the employer uses a third-party verification vendor, a written verification from the vendor of the borrower's current employment status may be obtained. **Because third-party vendor databases are typically updated monthly, the verification must evidence that the information in the vendor's database was no more than 35 days old as of the note date.**

A borrower who is no longer employed at closing by the employer disclosed on the initial Form 1003 is not eligible.

Written Verification of Employment form. Under Full Documentation, the Fannie Mae Form 1005 Verification of Employment or a similar written verification is acceptable; the Written Verification of Employment documentation option requires Form 1005 (Section 8.4.10). The form number must be stated on the verification and the form must be filled out completely.

8.3.4.2. Military Personnel

If the borrower is in the military, in lieu of a verbal or written VOE, either a military Leave and Earnings Statement dated within 120 calendar days prior to the note date, or a verification of employment through the Defense Manpower Data Center can be obtained.

8.3.4.3. Self-Employed

Verbal Verification of Employment is required for all borrowers using self-employed income to qualify and must be completed within 30 calendar days prior to the note date. Existence of the business(es) is required:

- Verification from a third party, such as a CPA, regulatory agency, or the applicable licensing bureau, if possible; or
- Verification of the phone listing and address for the borrower's business using a telephone book, the internet, or directory assistance; or
- For 1099 borrowers who are paid as individuals: the most recent paystub, statement, or similar documentation showing year-to-date earnings; or verification from the payer of the 1099 that the borrower is currently a contracted employee; or evidence of current work (executed contracts or signed invoices that indicate the business is operating on the day the lender verifies self-employment); or evidence of current business receipts (payment for services performed).

The source of the information and the name and title of the employee who obtained the information must be documented.

8.3.5. Other Income Types

Non-taxable income may be grossed up to 125% of the non-taxable amount. Documentation of the non-taxable status is required.

Documentation, calculation and continuance for all other income types follow the Fannie Mae Selling Guide.

8.3.5.1. Restricted Stock Units (RSU)

Restricted Stock Units (not to be confused with stock options) are a form of stock-based compensation granted by an employer and restricted by conditions in the compensation plan, for example a vesting schedule or performance goals. RSU income is evaluated according to its vesting provisions. Future vesting must support qualifying income.

Performance-based vesting (vesting contingent on corporate or individual performance): a two (2) year consecutive history of receipt from the current employer is required; a history of at least twelve (12) months but less than two years may be acceptable where the vesting schedule supports continued receipt at the same or a greater level. The income must be likely to continue for at least the next three (3) years.

Time-based vesting (vesting on a schedule not tied to performance): a twelve (12) month history of receipt from the current employer is required. The income must be likely to continue for at least the next three (3) years, supported by the vesting schedule.

Documentation, all of the following: year-to-date pay stub documenting all year-to-date earnings including RSU payouts; W-2 forms for the most recent two calendar years; the vesting schedule showing past and future vesting; evidence that the shares vested and were distributed to the borrower without restriction (brokerage or bank statement); and evidence that the issuer is publicly traded. A verbal verification of employment is required under Section 8.3.4.

Calculation of income: to determine the share price, use the lower of the current stock price or the two-year stock price average. Qualifying income is the average of the RSU income received over the history period (two years, or the actual period where the shorter history is accepted), with the share price so determined applied to the number of units vested in each year.

Sign-on grants that vest over time are not qualifying income. Non-vested restricted stock units and non-vested stock are not qualifying income or eligible assets. Vested stock options may be considered as assets only under Section 6.1 and may not be treated as RSU income.

8.4. Alternative Documentation

Alternative Documentation income may be combined only with Full Documentation income that is not associated with self-employment, for example wage income of the borrower or a co-borrower; this limits the combination permitted under Section 8.1. Where wage income is combined with Alternative Documentation income, tax returns and tax return transcripts are not required for the wage earner. Whether a Form 4506-C and transcripts are required is stated under each documentation option; where a Form 4506-C is obtained for the wage earner, it is completed with Box 8 selected to obtain W-2 or 1099 transcripts only.

Alternative Documentation may be used to determine qualifying income both alone and in conjunction with other documentation options. Refer to Section 8.1, and to Section 8.4.10 for combination files, for the documentation type used for pricing and eligibility.

8.4.1. Self-Employment Requirements

Where the borrower's business is a non-profit or not-for-profit entity, its income is not eligible under any Alternative Documentation option. Refer to Sections 8.1 and 8.3.3 for ineligible income types.

8.4.1.1. Self-Employment Ownership Verification

The borrower's ownership percentage and length of ownership must be verified with one of the following, and the document must clearly identify the percentage of ownership the borrower holds in the business:

- Letter from a CPA, EA, CTEC registrant, tax attorney, or a licensed tax preparer holding a PTIN. Validation of the credential (and, for a licensed tax preparer, the PTIN) is required, refer to Section 8.4.1.2.
- Business Formation Documents (Articles of Incorporation, Bylaws, Charter, Articles of Association, DBA for a sole proprietor). Any documents received must validate that they have been filed properly with the state.
- Operating Agreement/Partnership Agreement
- Other reasonable evidence of business activity, including a third-party business listing or business license, where it identifies the borrower's ownership percentage

A Third-Party Verification that the Business is in existence and in good standing is required.

8.4.1.2. Tax Professional Requirements

Where this Section requires a letter or statement from a tax professional, it must be prepared by one of the following, or by a tax attorney holding an active license to practice law in the state of licensure:

Acceptable Preparer	Requirement
Certified Public Accountant (CPA)	Active CPA license
Enrolled Agent (EA)	Active enrollment with the IRS
CTEC registrant	Active registration with the California Tax Education Council
Licensed tax preparer	**Holds an active state license or registration to prepare tax returns AND an IRS Preparer Tax Identification Number (PTIN)**

A PTIN alone is not sufficient. An IRS Preparer Tax Identification Number is issued to any person who prepares returns for compensation and is not a license, a credential, or evidence of any qualification. The preparer must hold one of the credentials in the table above or be a tax attorney meeting this Section; where a PTIN is required, it is stated in addition to that credential, not in place of it.

The preparer's credential, and for a licensed tax preparer the PTIN, must be stated on the letter or statement. The preparer's credential must be verified as active with the issuing authority and a copy of the verification retained in the loan file. Acceptable sources: IRS Directory of Federal Tax Return Preparers with Credentials (Enrolled Agents); CTEC Registered Tax Preparer verification (California); NASBA CPAverify or the state board of accountancy license lookup (CPAs); the state bar attorney search for the state of licensure (tax attorneys); the license or registration lookup of the issuing state (licensed tax preparers).

A Third-Party Prepared Expense Statement (Section 8.4.3) must be prepared by a preparer meeting this Section and must: state that the preparer prepared the most recent filed business tax return or has reviewed the business's current financial statements; certify that the expense percentage is an accurate summary of the business's expenses; confirm that the preparer is not related to the borrower and holds no ownership interest in the business; and be dated within one hundred twenty (120) days of the note date.

Where Sections 8.4.3 through 8.4.8 require proof of third-party licensing or certification, the requirement applies to each tax professional whose letter, expense statement or P&L is used in the loan file; where no tax professional document is used, no proof of licensing is required.

8.4.2. Bank Statement Requirements

Bank statements may be obtained as an alternative to tax returns to document a self-employed borrower's income. If the self-employed borrower's tax returns or tax return transcripts are provided, then the Full Documentation Self-Employed Income guidelines in Section 8.3.2 must be followed.

Self-employed borrowers can use Personal or Business bank statements to document their income. The following restrictions apply to both personal and business bank statement documentation:

- 12- or 24-month complete bank statements must be in the file from the same account for the same business. Evidence that an account was moved to a new institution is acceptable, however other co-mingling of multiple accounts to generate a full 12 or 24 months is not permitted.
- Every page including pages without transactions and advertisements must be present; transaction history printouts are not acceptable.
- Bank statements used for income must be consecutive and reflect the most recent months available per the Age of Documentation - Income.
- Deposits must be common and customary based on the nature of the business and how the borrower conducts their business.

Large deposits are subject to Section 6.7. A large deposit that is not supported by a letter of explanation or documentation meeting Section 6.7 is excluded from the income calculation.

- Deposits received through a payment processing application (for example Square, Stripe, PayPal or Venmo for business) are eligible business deposits when the application account is in the business or borrower's name and the processor statements for the same period are provided to identify the deposits.
- Months with no revenue must be explained by the borrower. The stability of the income must be supported by the deposit history.
- Where a 24-month review reflects a decline in deposits from the earlier twelve (12) months to the most recent twelve (12) months, refer to Section 8.3.2.4 Declining Income.

Disallowed deposits include:

Disallowed Deposit	Note
Transfers from other accounts	**Unless** it is an ACH/wire transfer from another company for services rendered, or a transfer from the borrower's business account documented under Section 8.4.5 or Section 8.4.6
Credit lines	
Business loans	
Rental income	
One-time only deposit in 12 months	
Cash advances from credit cards	
Returns/refunds	
Income from other sources	On personal bank statements

8.4.2.1. Business Narrative

The Onity Mortgage Corporation Business Narrative, a similar form, or a letter of explanation from the Borrower must be provided that explains the operating profile of the business, including: a description of how the business operates, advertises and generates revenue; business structure (sole proprietorship, general partnership, limited partnership, corporation, or S-corporation); whether the business requires any heavy equipment, materials or vehicles; number of physical locations (office, plant, storefront); number of employees or contractors (excluding the borrower); and website, if applicable.

8.4.2.2. Non-Sufficient Funds (NSF)

Non-Sufficient Funds (NSF) – Defined as an account which stays negative for more than 24 hours and a fee was charged by the financial institution.

NSFs in the most recent 12 months require a Borrower LOE documenting they are not due to financial mishandling or insufficient income.

Occurrences in the most recent three-month period	Maximum allowed in the most recent 12 months
One (1) or more	Three (3)
Zero (0)	Six (6)

NSFs should be covered with deposits shortly after they are incurred. Reversed/refunded NSFs are NOT included in the NSF count. Multiple NSF's and/or Overdrafts that occur on the same day will count as One occurrence. A transaction declined without a fee and without a resulting negative balance is not an NSF.

NSF Waiver. The occurrence limits above are waived where **both** of the following are met:

Requirement	Standard
Representative credit score	**720 or greater**
Mortgage or rental history	0x30x24 on all mortgage and rental histories

Where the waiver applies, there is no maximum number of NSF occurrences. The Borrower letter of explanation required above is still required for NSFs in the most recent 12 months, and the loan file must document that the account activity supports the stability of the income being used to qualify.

8.4.3. Business Bank Statement

If business bank statements are used to derive income, the following documentation is required.

Employment Requirements:

- Borrower must be self-employed for at least two (2) years and owned the business used in qualifying for at least two (2) years. Refer to Section 8.3.2.1 for requirements when the borrower has been self-employed less than 2 years but more than 1 year.
- The business used in qualifying must have existed/been active for at least two (2) years. However, if a borrower is qualifying with less than two years but more than one year of self-employment, then the business should be established for the same length of time.
- **The business structure may change within two years if the new business provides the same product and services as the current business (i.e. Sole proprietorship to LLC).**
- Borrower(s) must be at least 25% owner of the business. **If multiple owners will be borrowers, then the income used will be based on the combined ownership percentage.** Refer to Section 8.4.1.1. Proof of 3rd party licensing or certification is required; refer to Section 8.4.1.2.

Documentation Requirements:

- Follow the requirements in Section 8.4.2 Bank Statement Requirements.
- **Business expenses must be reasonable for the type of business.** Examples of businesses with higher expense ratios include construction companies, builders, restaurants, and retail firms.
- Multiple business bank accounts may be used for multiple businesses.
- Two business bank accounts may be used for the same business in situations where the borrower uses different accounts for different payment types, such as one account for cash or checks and another account for card transactions, or where one account is a checking account and another is a savings account. The accounts may not be co-mingled. **The reason for multiple bank accounts for one business must be clearly explained by the borrower.**
- **Monthly income must be disclosed on the initial, signed 1003.**
- **A signed Form 4506-C and transcripts are not required, unless there is a co-borrower (not married to the borrower) who is qualifying with full income documentation.**
- **Statements should show a trend of ending balances that are stable or increasing over time. Withdrawals consistently greater than deposits will be considered declining cashflow/income.** Refer to Section 8.3.2.4 Declining Income for decreasing or negative ending balances.
- A Verbal Verification of Employment is required.

Income Calculation:

Business bank statement qualifying income will be determined based on one of the following calculations:

Method	Calculation		
Published Expense Factor	The expense factor from the table below, applied on the basis of the business profile. A third-party expense statement is not required. **Where the business profile does not fit the table, a Third-Party Prepared Expense Statement is required.**		
Third-Party Prepared Expense Statement	The Expense Statement must be prepared and signed by a third-party CPA, EA, CTEC registrant, tax attorney, or licensed tax preparer holding a PTIN, indicating business expenses as a percentage of the gross annual sales/revenue. Bank statements are used for income, then the expense ratio is used to determine the qualifying income. **The lowest acceptable expense ratio for qualifying is 10%.**		
Business Type	0 Employees	1-5 Employees	More than 5 Employees
Service Business (offers services)	**15%**	**30%**	**50%**
Product Business (sells goods)	**25%**	**50%**	**85%**

Service Business examples: consulting, accounting, legal, therapy, counseling, financial planning, insurance, information technology.

Product Business examples: retail, food services, restaurant, manufacturing, contracting, construction.

The expense factor selected must be reasonable for the profession. Where the bank statements evidence expenses materially exceeding the factor selected, the higher figure must be used.

Business net income is calculated as Total Deposits less Disallowed Deposits, divided by 12 or 24 months, multiplied by 100% less the expense factor or expense ratio.

- **Qualifying income is the lower of the expense ratio calculation or the monthly income disclosed on the initial signed 1003**, unless the borrower provides a satisfactory signed letter of explanation stating why the initial 1003 reflects a lower amount.
- **Where the borrower has declining income and is qualifying with twenty-four (24) months of business bank statements, the most recent twelve (12) months of income is the lower figure used to qualify under Section 8.3.2.4 Declining Income.**
- **Qualifying Income must be multiplied by the ownership percentage to determine the owner's portion of income allowed for the transaction.**
- Where the calculated income exceeds the income disclosed on the initial signed 1003 by more than 20%, the borrower letter of explanation required above to use the calculated income must also be supported by the deposit trend on the bank statements.
- **Wage (W-2), Social Security, and other non-business income must be excluded from the bank statement deposits used in this calculation. Where such income is used to qualify, it must be documented and calculated separately under the Full Documentation requirements of Section 8.3 and entered on the Form 1003 as its own income source. The same income may not be counted in both the bank statement calculation and a separate income calculation.**

- Where a third-party expense statement is utilized, the following may be added back to net income: depreciation, depletion, amortization, and casualty losses.

8.4.4. Personal Bank Statement

Two options are available: Business Distributions (Section 8.4.5) and Commingled Bank Account (Section 8.4.6).

8.4.5. Business Distributions to a Personal Account

Use this option where the borrower maintains **separate** bank accounts for personal and business use and pays themselves as a distribution or payroll into the personal account. Deposits into the personal account may be used for qualifying. Payroll deposits from the qualifying business are business deposits under this option; they are not excluded as wage income and may not also be counted as wage income.

Proving the Accounts Are Separate.

Two (2) months of business bank statements are required for 100% of qualifying deposits to be used, and must document that the qualifying business is an operating entity and that the business account is separate from the personal account being used to qualify.

Requirement	Standard
Business bank statements	Two (2) months, covering the most recent two-month period
Account matching	**The deposits into the personal account must reflect the account number of the business account shown on the two months of business statements provided.**
Multiple businesses	Where one personal account receives deposits from more than one business, the deposits must be clearly matched to each business so the stability of each business and the borrower's ability to repay can be validated.

Percentage of Deposits Used.

Scenario	Deposits Used
Separation is proven under Section 8.4.5 — the business account is separate from the personal account, and the deposits into the personal account are matched to that business account	**100%** of qualifying deposits. **No expense factor is applied**, because the business bank statements evidence that operating expenses are paid from the business account.
Separation is not proven — the two months of business bank statements are not provided, the deposits cannot be matched to the business account, or the personal account also receives direct business revenue	**50%** of qualifying deposits, or the loan must be qualified as a Commingled Bank Account under Section 8.4.6

The originating account number on the personal account deposits must match the account number on the business bank statements, and the business statements must show operating expenses being paid, for 100% of the deposits to be used. Where the account numbers do not match, or the personal account receives revenue directly from customers rather than transfers from the business, separation is not proven and the table above applies (50% of qualifying deposits, or qualification as a Commingled Bank Account under Section 8.4.6).

Additional Requirements.

- **If the personal account is jointly owned, and the joint owner is not an owner of the business, deposits that are not readily identifiable as transfers from the business accounts or business deposits must be excluded.**
- **Borrower must be self-employed for at least two (2) years and owned the business used in qualifying for at least two (2) years. Refer to Section 8.3.2.1 Self-Employment History for requirements when the borrower has been self-employed less than 2 years but more than 1 year.**
- **The business used in qualifying must have existed and been active for at least two (2) years. However, if a borrower is qualifying with less than two years but more than one year of self-employment, then the business should be established for the same length of time.**
- **The business structure may change within two years if the new business provides the same product and services as the current business (for example, sole proprietorship to LLC).**
- Borrower(s) must be at least 25% owner of the business. If multiple owners will be borrowers, then the income used will be based on the combined ownership percentage. Refer to Section 8.4.1.1.
- Monthly income must be disclosed on the initial, signed 1003.
- A signed Form 4506-C and transcripts are not required, unless there is a co-borrower not married to the borrower who is qualifying with full income documentation.

- Significant and/or repeated transfers from a borrower's personal account to their business account should be scrutinized carefully as they may be indicators of poor financial health.
- A Verbal Verification of Employment is required.

Income Calculation.

- Qualifying income is calculated as (Total Deposits − Disallowed Deposits) divided by 12 or 24 months, multiplied by the applicable percentage in Section 8.4.5.
- **The most recent bank statement must be consistent with the qualifying income.**
- Income disclosed on the initial application (1003) should be reviewed for consistency with the income calculated from the bank statements. Large deviations should be evaluated and may require a written explanation from the borrower regarding their business and the income they earn, and/or additional documentation to further support the calculated income.
- Wage (W-2), Social Security, and other non-business income must be excluded from the bank statement deposits used in this calculation. Where such income is used to qualify, it must be documented and calculated separately under the Full Documentation requirements of Section 8.3 and entered on the Form 1003 as its own income source. The same income may not be counted in both the bank statement calculation and a separate income calculation.

8.4.6. Commingled Bank Account

This Section covers two situations. (1) Personal account receiving business deposits: the business maintains its own account and business income is transferred or deposited into the borrower's personal account. (2) True commingled account: the business has no separate account and business receipts and expenses run through the borrower's personal account.

A true commingled account may carry the income and expenses of only one business; personal bank accounts may not be commingled with multiple businesses. Where a personal account receives business deposits from more than one business, the deposits must be clearly matched to each business.

Employment Requirements:

Personal account receiving business deposits: the borrower must own a minimum of 20% of the business, only transfers or deposits from the business account are eligible deposits, and the most recent two (2) months of business bank statements must be provided to match the deposits. A borrower meeting this 20% minimum is treated as self-employed for this documentation option.

True commingled account: the borrower must own 100% of the business.

In both cases, all income and deposits from sources not related to the business must be removed from the income calculation. Ownership may be met under any one of the following structures:

Structure	Personal account receiving business deposits	True commingled account
Borrower and non-borrowing spouse	Combined ownership of at least 20%	Combined 100% ownership
All credit qualifying borrowers on the loan	Combined ownership of at least 20%	Combined 100% ownership
Independent contractor	Dedicated to one occupation and receiving 1099 income	Dedicated to one occupation and receiving 1099 income

Documentation Requirements:

- Bank statements must only reflect individuals who are borrowers or non-borrowing spouses.
- Follow the requirements in Section 8.4.2 Bank Statement Requirements and Section 8.4.3 Business Bank Statement, except that the ownership minimums and the Form 4506-C requirement of this Section apply in place of those in Section 8.4.3, and deposits into a personal account receiving business deposits are not multiplied by the ownership percentage.
- **A signed Form 4506-C is required. Transcripts are not required.**
- A Verbal Verification of Employment is required.

Income Calculation:

- A 50% expense factor is applied; or
- At the Seller's election, the file may be submitted and qualified as a business bank statement loan under Section 8.4.3 using either of its calculation methods (the published expense factor or a Third-Party Prepared Expense Statement). Where this election is made, the file must document the basis for treating the account as a business account — a borrower letter of explanation and evidence of business activity in the account (business income deposits and business expense payments).

8.4.7. Profit and Loss Statement Only

Self-employed borrowers are allowed to qualify using a 12-month or 24-month business profit and loss statement (P&L) only. **Profit and loss must reasonably reflect the income and expenses of the industry described. P&L statements which are suspicious in nature may require additional information.**

Product parameters: refer to the Program Matrix. Gift funds follow Section 6.6.

Employment Requirements:

- Borrower must be self-employed for at least two (2) years and owned the business used in qualifying for at least two (2) years.
- The business used in qualifying must have existed/been active for at least two (2) years.
- The business structure may change within two years if the new business provides the same product and services as the current business (i.e. Sole proprietorship to LLC).
- Borrower(s) must be at least 25% owner of the business. If multiple owners will be borrowers, then the income used will be based on the combined ownership percentage. Refer to Section 8.4.1.1. Proof of 3rd party licensing or certification is required; refer to Section 8.4.1.2.

Documentation Requirements:

- P&L covering the most recent previous 12 or 24 months.
- P&L must be dated no more than 120 days earlier than the date of the Note, per Section 8.2.
- P&L must be completed by a 3rd party CPA, EA, CTEC registrant, tax attorney, or licensed tax preparer holding a PTIN. Proof of 3rd party licensing or certification is required; refer to Section 8.4.1.2. **The 3rd party must sign and date the P&L and provide their attestation as to the accuracy of the P&L statement.** The preparer must attest that they have performed either of the following functions:
  - Audited the business financial statements, or
  - Reviewed working papers provided by the borrower.
- Supporting bank statements are required only where the loan amount exceeds $1,000,000. Where required, a minimum two (2) months of bank statements covering the most recent two (2) month period must be provided, and the average deposits from the bank statements must support the gross receipts/sales reflected on the P&L statement within a 20% tolerance, after excluding the non-business income described in the following bullet.
- Wage (W-2), Social Security, and other non-business income must be excluded from the bank statement deposits used in this calculation. Where such income is used to qualify, it must be documented and calculated separately under the Full Documentation requirements of Section 8.3 and entered on the Form 1003 as its own income source. The same income may not be counted in both the bank statement calculation and a separate income calculation.
- A signed Form 4506-C and transcripts are not required, unless there is a co-borrower (not married to the borrower) who is qualifying with full income documentation.
- A Verbal Verification of Employment is required.

Income Calculation:

- Perform a 12-month or 24-month average calculation of net income from the provided profit and loss statement, multiplied by the borrower's percentage of ownership.
- **Depreciation and W-2 wages are not added back into the net income.**
- Income disclosed on the initial application (1003) should be reviewed for consistency with the income calculated. Large deviations should be evaluated and may require a written explanation from the borrower regarding their business and the income they earn, and/or additional documentation to further support the calculated income.
- The income must be stable and likely to continue. If the income is declining, refer to Section 8.3.2.4 Declining Income.

8.4.8. Profit and Loss with Two Months Bank Statements

The requirements of Section 8.4.7 apply, except that a minimum two (2) months of business bank statements are required on all loan amounts, subject to the 20% tolerance. This option runs on the Program Matrix parameters applicable to bank statement documentation.

8.4.9. 1 Year or 2 Year 1099

Borrowers who are independent contractors, freelancers, or otherwise self-employed in the "gig economy" may qualify with 1099 statements in lieu of tax returns, to support their income.

Eligibility: Borrowers who have a 2-year history of receiving only 1099 income, or who have recently converted from W-2 to 1099 and have at least 1 year of receiving 1099 income in the same line of work, may utilize this form of documentation.

Documentation Requirements:

- 1099 statements must be in the borrower's name. **The borrower may not have ownership in the company issuing the 1099.** Multiple 1099s are allowed in industries where this is a common occurrence such as entertainment, medical contractor, etc.
- The Borrower must receive regular, ongoing compensation on a weekly, bi-weekly, bi-monthly, monthly, or quarterly basis. **Do not provide tax returns.**

Documentation Period	Required
12-month	Most recent Form 1099, **and** either the most recent paystub showing YTD income, a statement, or similar documentation showing the Borrower's year-to-date earnings. The most recent documentation may be used if earnings over 30 consecutive calendar days are verified.
24-month	2 years of Form 1099, **and** either the most recent paystub showing YTD income, a statement, or similar documentation showing the Borrower's year-to-date earnings. The most recent documentation may be used if earnings over 30 consecutive calendar days are verified.

- **A signed Form 4506-C and IRS 1099 Transcripts are required.** The year-end paystub, statement, or similar documentation may be used in lieu of the transcript when no record is found on the transcripts.
- **The borrower must provide a written explanation detailing the operating profile of the business.**
- Monthly income must be disclosed on the initial, signed 1003.
- A Verbal Verification of Employment is required.

Income Calculation — use the lesser of the two calculations for the applicable period:

Period	Calculation
12-month	The average income reported on the Borrower's most recent 1099 tax form × (1.00 − Expense Ratio), divided by 12 months; **or** the income reported on the Borrower's most recent 1099 tax forms plus the Borrower's year-to-date income × (1.00 − Expense Ratio), converted into a monthly average.
24-month	The average income reported on the Borrower's 1099 tax forms over the most recent 2 years × (1.00 − Expense Ratio), divided by 24 months; **or** the income reported on the Borrower's 1099 tax forms for the most recent 2 years plus the Borrower's year-to-date income × (1.00 − Expense Ratio), converted into a monthly average.

- **Expense Ratio: a 10% expense ratio must be applied.**
- **Income disclosed on the initial application (1003) should be reviewed for consistency with the income calculated from the Form 1099s. Large deviations should be evaluated and may require a written explanation from the borrower regarding their business and the income they earn, and/or additional documentation to further support the calculated income.**
- **The 1099 income must be stable and likely to continue. If the income is declining, refer to Section 8.3.2.4 Declining Income.**

8.4.10. Written Verification of Employment (WVOE)

The Written Verification of Employment product allows a wage earner to qualify on a WVOE supported by a single month of personal bank statements, without paystubs, W-2s, or tax returns. Because the WVOE is the primary evidence of income, the product carries its own eligibility parameters and its own verification controls. Refer to the Program Matrix for WVOE parameters.

Eligibility.

- Wage earners only. Self-employed borrowers, independent contractors, and borrowers paid on IRS Form 1099 are not eligible under this product; refer to Sections 8.4.3 through 8.4.9.
- Two (2) years history of employment in the same industry and one (1) year continuous employment at the current job.
- **Borrowers employed by a family member or related individuals are not eligible.**
- **0x30x24 housing payment history (rent free or less than 24 months history are ineligible).**

Documentation Requirements.

Requirement	Standard
WVOE form	**FNMA Form 1005.** The form number must be stated on the verification and the form must be filled out completely.
Completed by	**Human Resources, the Payroll Department, or an Officer of the company**
Delivery	**The form must be sent to and received directly from the employer.** The borrower may not request completion of the WVOE directly from their employer.
Verification of delivery and receipt	**Verification of delivery and receipt of the FNMA Form 1005 must be in the file.** Acceptable documentation is physical mail, Fed-Ex, facsimile, or email communication. Physical mail, Fed-Ex, and facsimile must come directly from the employer's address. Email communication must properly identify the Company representative.
Coverage period	The FNMA Form 1005 must reflect a **twenty-four (24) month history** of wage or salary earnings plus year-to-date, or at least one (1) year of earnings plus year-to-date where the borrower has been with the current employer less than two (2) years
Supporting bank statements	**One (1) month of personal bank statements**, reflecting deposits from the employer supporting at least **65%** of the gross wage or salary reflected on the WVOE
Electronic alternative	A WVOE from an approved online provider — The Work Number, TruWork, Equifax, Quick Confirm, or LexisNexis — is acceptable
Business verification	**An internet search of the business is required. Documentation of the search must be included in the credit file to support the existence of the business.**
Paystub, tax returns, W-2s	**Not required**
Form 4506-C and tax transcripts	**Not required**
Application	Monthly income must be disclosed on the initial, signed 1003
Age of documentation	All documents must meet Section 8.2
Verbal Verification of Employment	Required per Section 8.3.4

Income Calculation.

- Income is calculated per Fannie Mae requirements using the base pay amount and frequency stated on the WVOE. For hourly employees, use the hourly wage and the number of hours worked each week as stated on the WVOE.
- Bonus, overtime, tip, and commission income may be used where itemized on the WVOE and a two-year history is shown. Use a two-year average, or the one-year figure where the income is declining under Section 8.3.2.4.
- **For the borrower utilizing the WVOE, no other active employment income may be used.** Passive income may be included. Rental income must be documented in accordance with Section 8.6; interest, dividend, and retirement income must be documented in accordance with Sections 8.3.1 and 8.3.5.
- Income disclosed on the initial application (1003) should be reviewed for consistency with the income calculated. Large deviations should be evaluated and may require a written explanation from the borrower.
- The income must be stable and likely to continue. If the income is declining, refer to Section 8.3.2.4.

Where the deposits materially exceed the WVOE figure, a borrower explanation confirming that the excess is not undisclosed additional employment is required.

Combination Files.

Where one borrower is a wage earner documented by WVOE and another borrower is self-employed documented by bank statements, or under any other eligible documentation option, the loan is qualified and priced to the income verification supporting the largest percentage of total qualifying income.

8.5. Using Assets to Qualify

Asset Depletion and Asset Utilization are two different qualification methods and are not interchangeable. Asset Depletion converts eligible assets into a monthly income stream that is used as, or added to, the borrower's qualifying income, and a debt-to-income ratio is calculated (Section 8.5.1). Asset Utilization qualifies the borrower on total asset coverage and residual income; no debt-to-income ratio is calculated and no other income is used (Section 8.5.2). Where this Standard refers to Asset Qualification, both methods are meant.

Product parameters — both methods:

Parameter	Standard
Minimum FICO	660
Maximum LTV/CLTV	80% Purchase and Rate Term; Asset Depletion Cash-Out Refinance per the Program Matrix
Occupancy	Primary Residence, Second Home, and Investment Property
Transaction	Asset Depletion: Purchase, Rate Term, and Cash-Out Refinance. Asset Utilization: Purchase and Rate Term only
Non-occupant co-borrowers	Not allowed
Gift funds and gift of equity	Not allowed
Reserves	Where qualifying using Asset Utilization, the reserve requirements in Section 6.8 are not required in addition to the post-closing liquid assets

Refer to the Program Matrix.

8.5.1. Asset Depletion

Asset Depletion uses the borrower's post-closing, liquid assets to estimate a monthly income stream that is used to calculate the DTI.

Income Calculation: (Total Qualified Assets, at the asset percentages in Section 8.5.3, – down payment – closing costs – prepaid items – reserves) divided by 60.

Asset Depletion is eligible for Purchase, Rate Term Refinance, and Cash-Out Refinance transactions on all occupancies, subject to the Program Matrix.

Minimum net post-closing assets, at the asset percentages in Section 8.5.3, must equal at least 125% of the loan amount.

Asset Depletion may be used as the sole source of qualifying income or to supplement other qualifying income. If Asset Depletion is the primary source of income (> 50% of the total qualifying income), employment information on the 1003 is not required to be completed. Where Asset Depletion supplements other qualifying income and represents less than 50% of total qualifying income, the minimum post-closing asset requirement of 125% of the loan amount does not apply. If Asset Depletion will be used as supplemental income (< 50% of the total qualifying income), then the ending balance of the asset statements must match the total amount of assets used to calculate the income. The balance on the account statement cannot be reduced solely for the purpose of lowering the supplemental income to less than the 50% qualifying income threshold. Refer to the Program Matrix for reserve requirements on Asset Depletion transactions. For Asset Utilization, the Reserves row in Section 8.5 applies.

8.5.2. Asset Utilization

Asset Utilization does not require a DTI to be calculated and qualifies the borrower based solely on post-closing liquid assets. Employment information on the Form 1003 is not required. The method is eligible for Purchase and Rate Term Refinance transactions only; Cash-Out Refinance is not permitted. No other income type may be used.

The borrower's post-closing liquid assets, at the asset percentages in Section 8.5.3, must exceed the combined total of 100% of the loan amount, the down payment, closing costs and prepaid items, and sixty (60) months of current monthly obligations.

Current monthly obligations include debts reported on the credit report, alimony and child support, the subject property PITIA (for a loan with an Interest-Only feature, calculated on the fully amortizing payment under Section 2.3), and the full PITIA for all other real estate owned.

Residual income is required. Residual Income = (Total eligible assets, at the asset percentages in Section 8.5.3, – down payment – closing costs – prepaid items) ÷ 60 months – current monthly obligations (as defined above). The result must meet or exceed a flat monthly residual income of $2,000.00, regardless of household size. This test applies to every Asset Utilization transaction, whether or not the loan is an HPML. The sixty (60) month asset coverage test and the residual income test measure different things — total coverage and monthly cushion — and both must be met.

Rental income received is not eligible to be used to reduce, omit, and/or offset the payment. Debts being paid off or installment debt being paid down below 10 months for qualifying purposes are not permitted.

8.5.3. Eligible Assets — Asset Qualification

Asset	Percentage
Checking / savings / money market accounts and certificates of deposit	100%
Publicly traded stocks / bonds / mutual funds, non-retirement	80%

Asset	Percentage
Vested retirement assets	70% of the vested balance that remains after deducting any outstanding loans against the account and, where the borrower is under age 59½, any applicable early withdrawal penalty. The loans and the penalty are deducted first, and the 70% is applied to the balance that remains.
Life insurance cash surrender value	100%, less any outstanding policy loans
Trust assets, revocable trust	100%
Trust assets, irrevocable trust	100% where the borrower is the beneficiary and has documented immediate access
Cryptocurrency – Bitcoin and Ethereum	50%
Net proceeds from a documented sale of real estate	100%

8.5.4. Ineligible Assets — Asset Qualification

- Business assets
- Gift funds and gift of equity
- Equity in real estate including current home
- Funds that have been allocated as Margined/Pledged/Collateral assets/loans
- Private securities or any non-publicly traded assets
- Stocks and bonds not publicly traded
- Restricted stock units, stock options, non-vested stock
- The following trusts — Blind trusts, Land trusts, Life estates
- Cash-out proceeds from the subject transaction
- 529 plans and other qualified tuition plans
- An individual account held solely by a non-borrowing spouse
- An account already used to establish qualifying income for the borrower under any documentation option
- Any asset not listed in Section 8.5.3, and any asset that is ineligible under Section 6.9

8.5.5. Documentation — Asset Qualification

Asset statements (monthly or quarterly) or a Verification of Deposit evidencing that the assets have been on deposit for at least one hundred twenty (120) days before the note date are required for qualification. Balances must be verified within 120 days of the Note Date and must meet the Age of Documentation - Assets requirements in Section 6.2.

Seasoning: all assets used for qualification, including net proceeds from a documented sale of real estate, must have been on deposit for a minimum of one hundred twenty (120) days before the note date. This is separate from the 120-day statement age requirement under Section 6.2, which governs how recent the statements must be. Large deposits on Asset Depletion transactions are subject to Section 6.7. Asset Utilization transactions have no qualifying income on which to set a large deposit threshold; on those transactions the 120-day seasoning requirement above applies in place of a threshold.

If assets are from a joint account, refer to Section 6.3. There must be sufficient documentation to clearly demonstrate the amount of assets that the borrower(s) has direct liquidation access to.

Increases or decreases of greater than 15% over the documented period must be explained by the borrower, and may require supporting documentation to demonstrate that no adverse changes to the portfolio are expected.

Balances held in a financial institution outside the United States may be counted as qualifying assets at the percentage for their asset class in Section 8.5.3 when they meet every requirement of Section 6.5 and the full balance being counted has been transferred to a U.S. account in the borrower's name before closing. Balances that remain outside the United States at closing are not qualifying assets.

8.6. Rental Income

Rental income is qualified according to the documentation type of the loan. Rental income from a subject second home may not be used to qualify (Section 2.8). Consistent with the non-QM structure of this program, federal income tax returns are used to document rental income on Full Documentation transactions only. Tax returns are never requested to document rental income on Alternative Documentation, Written Verification of Employment, or DSCR transactions — the documentation type itself defines the income evidence. This Section governs rental income on Full Documentation, Alternative Documentation (including Asset Depletion), and WVOE transactions only. Rental

income may not be used on Asset Utilization transactions (Section 8.5.2). Rental income on DSCR transactions is governed exclusively by Section 10 and is never qualified under this Section.

Documentation Type	Rental Income Treatment
Full Documentation	Long-term rental income: follow Fannie Mae guidelines, including Schedule E tax-return documentation where applicable. Short-term rental income: Section 8.6.2. This is the only documentation type on which tax returns are requested. IRS Form 1099 transactions (Section 8.4.9) follow the Alternative Documentation row.
Alternative Documentation (bank statement, P&L, IRS Form 1099, Asset Depletion)	Per Sections 8.6.1 and 8.6.2. Tax returns are not requested.
Written Verification of Employment	The WVOE documents wage income only. Rental income, where used, follows the Alternative Documentation requirements of this Section. Tax returns are not requested.
DSCR	Not qualified under this Section. DSCR rental income — long-term and short-term — is governed exclusively by Section 10.4.

8.6.1. Long Term Rental Income

Long term rental income may be used for qualifying purposes.

Tenant may not be a family member.

The requirements below apply to Alternative Documentation transactions. Full Documentation transactions follow Fannie Mae guidelines per the documentation-type framework in Section 8.6.

Scenario	Documentation	Calculation
Subject Purchase transactions	Comparable Rent Schedule Form 1007 or 1025, as available per market	Market rent multiplied by 75% to account for a vacancy factor, then averaged over 12 months
Departing Residence	Copy of 12 month executed lease, verification of security deposit **and** first month's rent deposited to borrower's account	Monthly lease amount multiplied by 75% to account for a vacancy factor
Owned more than 12 months, rented less than 12 months	Current executed lease with proof of receipt for the months rented, plus a borrower explanation for the period the property was not rented. Where no lease is in place, Comparable Rent Schedule Form 1007 or 1025 market rent.	Monthly lease amount (or market rent) multiplied by 75% to account for a vacancy factor.
Vacant or not currently rented (refinance)	Market rent from the Comparable Rent Schedule Form 1007 or 1025, plus a borrower letter of explanation addressing the vacancy and the intended rental plan.	Market rent multiplied by 75% to account for a vacancy factor.

Where rental income is a secondary source of income:

Scenario	Documentation	Calculation
Subject Refinance transactions	12 months of canceled checks or bank statements	Gross deposits over the 12-month period, multiplied by 75%, then averaged over 12 months
Other Real Estate Owned properties	Current lease agreement **and** most recent 2 months rental deposits reflected on the bank statements, cancelled checks, or electronic proof	Monthly lease amount multiplied by 75% to account for a vacancy factor

Where rental income is the primary income source of income as a real estate investor:

- The rental deposits reflected on the bank statements covering the 12 or 24-month period, depending on the documentation type, **with a letter of explanation (LOE) from the borrower indicating the rental property address and the rental amount.**
- For any newly rented properties (less than 12 months), the borrower must also explain why the property has been rented less than 12 months and provide supporting documentation to confirm the purchase date, such as the settlement statement.
- **A lease agreement is not required to confirm the rental income that is reported on the bank statements.** However, where it cannot be determined whether the source of the deposit(s) is tied to the rental property(ies), or if the deposits are inconsistent, rental lease(s) may be required as needed.

Refer to Fannie Mae guidelines for landlord history requirements and for how the rental income determined above is applied against the property's PITIA in the debt-to-income ratio.

Where the calculation produces a negative figure, the shortfall must be included as a monthly liability.

Vacancy factor. Long term rental income is used at **75%** of the gross rent (a 25% vacancy factor) on Alternative Documentation transactions. Full Documentation transactions follow Fannie Mae.

8.6.2. Short-Term Rental Income

Short-term rental (STR) income — nightly, weekly, monthly, or seasonal rentals such as AirBNB, VRBO, or HomeAway — may be used for qualifying purposes on either the subject property, other than a subject second home (Section 2.8), or other investment properties that the borrower owns, for purchase or refinance transactions.

8.6.2.1. Eligibility

All of the following must be met before STR income may be used:

Requirement	How Verified
Short-term rental use is **legally permissible, licensed where applicable, and common for the area**	**Legally permissible: only one of the following is required:** documentation verifying that local city or county ordinances are met; **or** the appraiser states that short-term rental use is legally permissible. Under either method, a copy of the current license or permit is required where the jurisdiction requires registration. Common for the area: the appraiser must comment on the prevalence of short-term rental activity in the market area, and whether there is an impact on marketability.
Condominiums, PUDs, and any property subject to a homeowners association — short-term rental use is permitted by the association	**Required in addition to the row above, and may not be satisfied by appraiser commentary.** Evidence must be a condominium association or HOA letter, the completed project questionnaire response addressing short-term rental, or the recorded covenants.

A property located in a jurisdiction whose code of ordinances prohibits short-term rental is ineligible where STR income is used to qualify. A condominium, PUD, or association-governed property whose governing documents prohibit or restrict short-term rental beyond the terms under which the income was projected is likewise ineligible. Where the borrower cannot document that the use is permissible, the property must be qualified on long-term rental income under Section 8.6.1 or without rental income.

For an association-governed property, the association evidence is required whether or not the jurisdiction permits short-term rental; a permissive ordinance does not override a restrictive covenant.

8.6.2.2. Documentation Requirements

Purchase transactions. Any one of the following:

Method	Requirements
Short-term rental market analysis completed by a licensed appraiser	Must be completed by a licensed appraiser. The analysis must: state the source of the data used; include comparable STR properties, focusing on room count, gross living area, location, and market appeal; include the daily rental rate and the occupancy percentage; and **factor seasonality and vacancy into the analysis**. Any form or format completed by a licensed appraiser is acceptable, including but not limited to: Form 1007 or 1025 with a short-term rental addendum; a narrative addendum (for example, a Short-Term Rental Projected Income Analysis); or a dedicated STR analysis form published by an appraisal management company (for example, the Nationwide Appraisal Network STR Analysis Form). Third-party market data reports are addressed in Section 8.6.2.3.
AirDNA Rentalizer / Property Earning Potential Report	See Section 8.6.2.3. Permitted on purchase transactions only.

Refinance transactions. Any one of the following. Where the platform statement or self-managed method is used, the appraisal must also include the Form 1007/1025 market rent or a short-term rental market analysis completed by a licensed appraiser, for the comparison in Section 8.6.2.4:

Method	Requirements
Tax returns	Full Documentation transactions only. The most recent year's federal income tax return including Schedule E. Tax returns are not requested on Alternative Documentation transactions — use one of the other methods in this table.

Method	Requirements
Third-party platform or management statements	Remittance statements from the renting entity or a third-party property management provider (AirBNB, VRBO, HomeAway, or equivalent) covering the most recent 12-month period. **Documentation must include the property address or a unique property ID specific to the subject property.** A full 12-month history is required.
Self-managed property	Where the short-term rental property is self-managed and not through a third party, evidence of 12 months of receipt of the rental income through canceled checks or bank statements is required

Required on all STR transactions: the loan file must include supporting documentation detailing the **PITIA breakdown for each property owned** by the borrower.

8.6.2.3. AirDNA Report Requirements

Where an AirDNA Rentalizer or Property Earning Potential Report is used, all of the following must be met:

Parameter	Requirement
Transaction type	Purchase transactions only
Revenue projection basis	Average daily rental rate multiplied by the occupancy rate
Forecast period	Must cover 12 months and be dated within 90 days of the Note date
Comparable properties	Minimum three (3), similar in size, room count, amenities, availability, and occupancy
Market Score or Sub-Market Score	**Must be 60 or greater** as reflected on the Property Earning Potential Report

A report failing any parameter above may not be used. Where the report is unusable, the transaction must be documented under one of the other methods in Section 8.6.2.2 or qualified without STR income.

8.6.2.4. Income Calculation

Transaction	Calculation
Purchase	**80%** of the market rent or projected revenue from the method used in Section 8.6.2.2, averaged over 12 months (gross amounts)
Refinance	Platform statement and self-managed methods: the **lower** of (a) 80% of the Form 1007/1025 market rent or of the short-term rental market analysis completed by a licensed appraiser (Section 8.6.2.2), gross, averaged over 12 months; and (b) the result of the applicable method row below. Where more than one method below is documented, the lowest result is used. The tax return method is calculated under its own row.
Refinance, tax return method (Full Documentation transactions only)	Income from Schedule E averaged over 12 months, with depreciation, interest, taxes, insurance and homeowners association dues added back
Refinance, platform statements	**100%** of the net operating amount where the statement itemizes the operating expenses, averaged over 12 months. Where a management fee is not reflected on the statement, deduct it from the payout or use 80% of the gross booking amount
Refinance, self-managed	**80%** of gross deposits over the 12-month period, averaged over 12 months

The 80% factor applies to gross amounts on all documentation types. It accounts for vacancy and for the extraordinary costs of operating a short-term rental compared to a long-term rental — advertising, furnishings, cleaning, supplies, property management, and platform fees.

100% applies only to net operating amounts — where the source statement itemizes the operating expenses, as with VRBO and Airbnb remittance statements and management-company rental statements. A management fee that is documented but not reflected in the amount used must be deducted from qualifying income; the 80% factor and a deducted management fee are never applied to the same amount.

Short-term rental income determined under this Section is applied against the property's PITIA in the debt-to-income ratio in the same manner as long-term rental income under Section 8.6.1.

Long-term rental income remains subject to the 75% vacancy factor in Section 8.6.1. Where the calculation produces a negative figure, the shortfall must be included as a monthly liability.

8.6.2.5. Additional Considerations

- **Seasonality.** Where the market is seasonal, the analysis must cover a full 12 months. A projection built on peak-season rates alone may not be used. A seasonal short-term rental must be qualified on the full 12-month calculation, including months with no receipts. A single deposit, or a single month of receipts, is not acceptable evidence of short-term rental income; a minimum of three (3) months of receipts within the required history is required.
- **Properties owned less than 12 months.** A full 12-month history is required on a refinance. Where the borrower has owned the property less than 12 months, the property may be considered on a case-by-case basis using the short-term rental market analysis completed by a licensed appraiser (Section 8.6.2.2) and the Purchase calculation in Section 8.6.2.4 (an AirDNA report may not be used; Section 8.6.2.3), together with the settlement statement confirming the purchase date and a borrower letter of explanation.
- **Conversion from long-term to short-term rental.** Where a property has been converted, use the documentation method matching the current use, and obtain a borrower letter of explanation addressing the conversion and its timing.
- **Furnishings and personal property** may not be included in the appraised value.

DSCR Loans: Refer to Section 10.4.2.

9. Collateral Requirements

9.1. Property Requirements

9.1.1. Eligible Property Types

- One Unit Single Family Residences (Attached, Detached and Modular)
- Townhouses
- One-unit properties with up to two (2) Accessory Dwelling Units (ADUs), subject to Accessory Dwelling Units in Section 9.1.3
- 2–4 Unit Properties (an ADU is not permitted on a 2-4 unit property)
- PUDs – Attached and Detached
- Warrantable Condominium (Detached, Attached)
- Non-Warrantable Condominium (Detached, Attached)
- Condominium Hotel (Condotel)
- Modular Homes (site assembled)
- Log homes that are common to the area
- Agricultural zoned properties meeting Section 9.1.6
- Rural Properties meeting Section 9.1.5
- Leasehold Properties (in areas where leaseholds are common, excluding Tribal Land)

Properties in excess of the predominant value of the subject market area are acceptable when supported by similar comparable sales and when the improvements represent the highest and best use of the land.

9.1.2. Ineligible Property Types

- Mobile or Manufactured Home
- Manufactured Home Condo Projects
- Cooperatives (co-op units and co-op projects), regardless of delivery channel
- Working Farms, ranches, orchards, and commercial agricultural operations (a hobby farm meeting Section 9.1.6 is eligible)
- Commercial or Industrial Zoned properties
- Mixed-use properties (a condominium unit in a project whose commercial or nonresidential space is within the limits in Section 9.1.3 is not a mixed-use property)
- Unique Properties (Barndominiums, geodesic domes, earth-sheltered and berm homes, and any property with no comparable sales)
- Properties exceeding the acreage limits in Section 9.1.4
- Lease with option to buy / Rent-to-own
- Properties with unremediated environmental contamination
- Properties that are using short term rental to qualify but the local code of ordinances do not allow short term rentals
- Timeshares and fractional ownership
- Tenancy in Common properties, meaning a building owned in undivided shares in which each owner holds the right to occupy a specific unit (tenants in common vesting under Section 4.8 is not affected)
- Leasehold properties on Tribal Land
- Properties located on federal and state Indian reservations, allotments conveyed to members of Indian tribes and land where title can only be held by an individual Indian person or tribe.
- Assisted living and licensed care facilities
- Properties subject to a resale restriction, other than an age-restricted community compliant with the Housing for Older Persons Act, unless the restriction terminates automatically upon foreclosure or acceptance of a deed-in-lieu and the title policy insures that termination without exception
- Properties below the minimum living area: single family 500 square feet; condominium 500 square feet; 2-4 unit properties 400 square feet per individual unit
- Properties with an appraisal condition rating of C5 or C6, or a quality rating of Q6
- Properties not suitable for year-round occupancy

- Shared-pad and pad-split arrangements, individual room rentals, and bed and breakfast operations
- Properties without a fully functioning kitchen with stove and oven. Hook-ups allowed for new construction properties. Cooktops only are not permissible.

9.1.3. Condominium Projects

Project review requirements are determined as follows. Where a project fits more than one row, the non-warrantable row governs over the rows that require no review, and a warrantable project of ten (10) or fewer total units, new or established, requires no project review:

Project Characteristic	Review Required
Detached condominium unit	None
New or established project of ten (10) or fewer total units	None
Established attached project, warrantable	Fannie Mae Condo Project Manager (CPM) certification, unexpired as of the note date and included in the loan file, or a completed condominium project questionnaire supporting Fannie Mae project eligibility
New or newly converted attached project, warrantable	Full Review, including project questionnaire, budget, and reserve study
Non-warrantable project	Full Review Condo Questionnaire
Condominium Hotel	Refer to Condominium Hotel (Condotel) in this Section

Regardless of the level of review, a project is ineligible where any of the following is present: outstanding critical repairs; an evacuation order; a special assessment relating to a structural or life-safety deficiency; or pending litigation involving the structural integrity, safety, or habitability of the project. Non-structural litigation is acceptable when it does not affect health and safety or marketability and either the potential damages do not exceed 25% of the HOA's reserve funds, or the association's insurance carrier and counsel confirm that the carrier has accepted the defense and the policy limit is sufficient to cover the claim.

Projects that require a Fannie Mae Project Eligibility Review Service (PERS) approval: on a loan delivered by a Delegated Correspondent Seller, the Seller may provide a PERS approval for an eligible condominium project as outlined in the Fannie Mae guidelines; on a loan delivered by a Non-Delegated Correspondent Seller, a full review as a non-warrantable condominium is required.

Warrantable condominiums must conform to Fannie Mae condominium project eligibility requirements. On a Full Review, the Seller must submit Fannie Mae Form 1076 (or similar form) along with condo project documentation (including: covenants, conditions and restrictions; bylaws; articles of incorporation, financial statements, budget documents, insurance declaration page, HO6 condo insurance policy, and a recent condo reserve study).

Non-Warrantable Condominiums.

Non-Warrantable Condominiums (condominiums that do not meet Fannie Mae warrantable guidelines) are allowed when all FlexIQ project limits are met and no ineligible project characteristic is present. A Full Review Condo Questionnaire is required.

Refer also to Ineligible Project Characteristics in this Section. A project with any ineligible project characteristic is not eligible as a Non-Warrantable Condominium even where every limit in the table below is met; both the limits below and the Ineligible Project Characteristics list must be reviewed on every non-warrantable project.

New projects. The project, or the subject's legal phase together with the other phases, must be complete, and all common areas in the project must be 100% complete. The developer may control the association only where the Master Agreement provides for control to pass to the unit owners at a predetermined percentage of unit sales or within a defined time period.

Commercial/nonresidential space. The subject unit must be 100% residential. The 50% limit includes above and below grade commercial space but does not include commercially dedicated parking. Any commercial space must be typical to the marketplace and have no negative impact on marketability. The commercial percentage is determined by the appraiser. A commercial entity may not control the HOA.

Characteristic	Warrantable Limit	FlexIQ Limit
Commercial/nonresidential space	35%	50%
Delinquent HOA dues, 60 days or more past due	15% of units	25% of units
HOA replacement reserve allocation	10% of budget	Refer to the graduated table below
Investor concentration, established projects, investment transactions	50%	70%
Single entity ownership	20%	49%; 65% for non-gut conversions
New projects, presale	70% sold or under contract	30% sold or under contract

Condotels. A condominium hotel project may have up to **100% investor concentration**. The other limits in the table above apply to condotels except where the Condominium Hotel (Condotel) requirements below state a different limit, in which case the condotel requirement governs.

Graduated HOA reserve requirement:

Reserve balance relative to the reserve study requirement	Minimum annual budget allocation
Fully funded per a reserve study dated within 3 years	5%
At least 50% funded per a reserve study dated within 3 years	8%
No reserve study, or less than 50% funded	10%

Ineligible Project Characteristics.

No more than 2 non warrantable features are allowed; a non-warrantable feature is a characteristic in the non-warrantable limits table above that falls outside its Warrantable Limit. The following may not be counted as a permitted non-warrantable feature and render the project ineligible:

- Projects operated as a hotel or motel, or with mandatory rental pooling, other than an eligible Condotel
- Projects with mandatory upfront or recurring membership or club fees
- Projects with a right of first refusal that cannot be waived
- Manufactured home condominium projects
- Projects where the HOA is not the sole owner of the common elements
- Projects where more than 20% of the units are subject to short-term rental agreements, unless underwritten as a Condotel

Condominium Hotel (Condotel).

Onity Mortgage Corporation does not maintain an approved condotel project list. Each project is underwritten against the requirements below.

- Minimum unit size of 500 square feet
- The unit must be a separate legal condominium unit with a full kitchen (refrigerator, cooktop or range, oven, and sink) and a separate bedroom or defined sleeping area, individually deeded and separately assessed for taxes
- The project must be professionally managed by a national or regional hospitality brand, or by a management company with at least five (5) years of operating history and at least three (3) comparable properties under management
- Rental participation must be voluntary. A project with mandatory rental pooling, mandatory revenue sharing, or a mandatory management agreement is ineligible.
- The project documents must not limit the unit owner's right to occupy the unit, including through black-out periods. On an investment property loan, including every Business Purpose Loan, the borrower may not occupy the unit at any time (Sections 1.5.1 and 2.8)
- The project must be at least 50% sold and closed to individual owners
- No single entity may own more than 40% of the units
- The HOA must have a replacement reserve allocation of at least 10% of budget, or a fully funded reserve per a current study
- Borrower reserves of nine (9) months, inclusive of the Program Matrix requirement, are required (Section 6.8).

The appraisal must include at least three (3) closed comparable sales within the same project or a directly competing condotel project. A general condominium comparable is not acceptable.

Where the transaction is a DSCR loan, short-term rental income may be used in accordance with Section 10.4.2. Where the property is in a rental program, twelve (12) months of operator remittance statements are the preferred documentation.

Accessory Dwelling Units.

A one-unit property with up to two accessory dwelling units (ADUs) is eligible. Each ADU must be allowed by local zoning (an ADU constructed or converted without the required permit is addressed below), must be smaller than the primary dwelling, must have its own means of ingress and egress and its own kitchen, sleeping and bathing facilities, and must be of construction quality consistent with the primary dwelling. The kitchen must include cabinets, a countertop, a sink with running water, and a stove. An area that can be accessed only through the primary dwelling, or that is open to the primary dwelling, is not an ADU. The appraisal must describe each ADU, analyze its effect on the marketability of the property, and include at least one comparable sale with the same use and the same number of ADUs; Form 1025 is required when the property has two ADUs. Hazard insurance replacement cost coverage must include each ADU. A property with three or more ADUs, or an ADU on a 2-4 unit property, is not eligible. An

ADU that was constructed or converted without the required permit is acceptable where the appraiser identifies the unpermitted work, comments on the quality and appearance of the work, and states its impact, if any, on the market value of the property. Where local zoning does not allow the unit, the property is ineligible. Rental income from an unpermitted ADU may not be used to qualify under any documentation option. Rental income from an ADU may be used only as provided in Section 8.6 (Full and Alternative Documentation) or Section 10.4 (DSCR), and only where the appraisal reflects that the ADU is legal or complies with zoning and permits are verified where the jurisdiction requires them. Where two ADUs generate rental income, gross market rent must be itemized for each ADU. Where AirDNA is used, the bedroom count includes the primary dwelling and all ADUs.

9.1.4. Acreage

Program	Maximum Acreage
Full Documentation, Alternative Documentation, Asset Qualification	20 acres
DSCR, 1-4 unit	5 acres

The lot size and acreage must be typical for the area and supported by the comparable sales.

Multiple parcels: a property consisting of more than one parcel of real estate follows the Fannie Mae Selling Guide, Section B2-3-04, Special Property Eligibility Considerations, Multiple Parcels.

9.1.5. Rural Properties

A property is classified as rural when any one of the following applies:

- The appraiser indicates the property is rural within the appraisal report; or
- The property is zoned rural; or
- The property is a working farm (crop production or commercial livestock), which is ineligible under Section 9.1.2; or
- The property is larger than twenty (20) acres, which exceeds the acreage limits in Section 9.1.4.

Rural properties are allowed on primary residence and second home under Full Documentation, Alternative Documentation and Asset Qualification, and on investment property under DSCR only. In this Section, Full and Alternative Documentation includes Asset Qualification, consistent with Section 9.1.4. In the table below, Full and Alternative Documentation includes Asset Qualification.

Occupancy	Maximum LTV/CLTV
Primary Residence (Full and Alternative Documentation)	80%
Second Home (Full and Alternative Documentation)	75%
Investment Property, Full and Alternative Documentation	Not permitted
Investment Property, DSCR (maximum five (5) acres, Section 9.1.4)	75% Purchase and Rate Term; 70% Cash-out Refinance

The following criteria apply:

- The primary use must be residential
- The present use must be the “highest and best use”
- The appraisal photographs must include the interior of any outbuildings
- The property must not be used for agricultural purposes, or otherwise providing a source of income to the Borrower or for the subject loan, other than rental income on an investment property and other than as permitted under Section 9.1.6
- Outbuildings may contribute to the appraised value only where the appraiser supports the contribution, considering their condition, quality and use, with comparable sales that have similar outbuildings

9.1.6. Agricultural Zoned Properties

A property zoned agricultural is eligible where all of the following are met:

- The property is residential in nature and the residential improvements represent the primary value
- The property has no income producing attributes, other than rental income on an investment property, and is not used for commercial agricultural production
- Acreage does not exceed the limits in Section 9.1.4 (twenty (20) acres; five (5) acres on DSCR)
- The present use is the highest and best use, and the appraiser identifies comparable sales of similarly zoned residential properties
- The zoning is legal, or legal non-conforming with rebuild rights

Hobby farms with a vineyard, orchard, small livestock enclosure, riding ring, or barn are eligible under this section provided the agricultural activity generates no income to the borrower and does not require a commercial license.

Working farms and properties providing a source of income to the borrower, other than rental income on an investment property, remain ineligible.

9.1.7. Zoning

A property's zoning by itself does not make the property ineligible except as stated below and in Section 9.1.2. The highest and best use must be residential, and the use must be legal and permissible under the applicable zoning requirements. Properties with zoning violations are ineligible.

A legal non-conforming property is eligible only when all of the following are met:

- The appraiser addresses any adverse effect of the non-conforming use on value and marketability.
- The appraisal states that the property may be rebuilt "as is" after a casualty loss, or a letter from the local jurisdiction confirms the property may be rebuilt "as is."

9.1.8. Solar Panels

The appraiser must identify the financing arrangement for any solar panels present, and the arrangement must be documented in the loan file.

Arrangement	Contributes to Appraised Value	Payment Included in DTI	Additional Requirement
Owned outright, no lien	Yes	No	None
Financed, secured by a UCC-1 fixture filing or a lien on the panels	No	Yes	The title policy must insure first lien position without exception. The filing must be limited to the panels or subordinated.
Leased, or under a power purchase agreement	No	Yes, unless the agreement meets the exclusion conditions below	The agreement must be obtained and reviewed and must be transferable to a subsequent owner. Consistent with Fannie Mae Selling Guide B3-6-05, the payment may be excluded from the DTI only where: (a) the agreement provides for delivery of a specific amount of energy at a fixed payment for a given period and includes a production guarantee that compensates the borrower on a prorated basis when the panels produce less than the required output; or (b) the payment is calculated solely on the energy produced. Where neither condition is met, the payment is included in the DTI. The basis for any exclusion must be documented in the file.
Financed through a PACE assessment	No	Refer to Section 9.1.9	Must be paid in full at or prior to closing

In all cases the panels must not impair the marketability of the property, and the appraiser must address marketability.

Property eligibility, appraisal treatment and title requirements for solar panels follow Fannie Mae Selling Guide B2-3-04 except where this Section states otherwise. The property must retain access to an alternate source of electric power that meets community standards.

9.1.9. PACE and PACE-Like Obligations

A Property Assessed Clean Energy (PACE) or PACE-like obligation is not permitted and must be paid in full at or prior to closing and released of record, whether or not it takes priority over the subject first lien.

9.1.10. Resale and Deed Restrictions

A property subject to an age-related restriction (including 55+ and similar age-restricted communities) is eligible where the restriction and the project comply with applicable fair housing law and Fannie Mae requirements for age-

restricted properties, the restriction is disclosed to the appraiser, and the appraiser addresses marketability within the restricted market.

Any other resale or deed restriction, including an income-based, employer-based, resale-price, or right-of-first-refusal restriction, is eligible only where it meets the termination and title insurance conditions in Section 9.1.2. A restriction that survives foreclosure or acceptance of a deed-in-lieu is not eligible.

9.2. Appraisal Requirements

A full interior and exterior appraisal on the applicable Fannie Mae form is required on all transactions. Desktop appraisals, hybrid appraisals, and bifurcated appraisal products are not acceptable in any role — neither as the primary valuation nor as a supporting product. Appraisal waivers, drive-by and exterior-only reports, and automated valuation models used as the primary valuation are not acceptable.

Appraisals completed on the legacy Fannie Mae forms (1004, 1025, 1073 and related forms) and appraisals completed on the Uniform Appraisal Dataset 3.6 Uniform Residential Appraisal Report are both acceptable until November 2, 2026. Onity Mortgage Corporation follows the Fannie Mae and Freddie Mac UAD 3.6 timing, which is based on the initial Uniform Collateral Data Portal (UCDP) submission date and not the appraisal effective date: an appraisal first submitted to UCDP on or after November 2, 2026 must be completed on the UAD 3.6 Uniform Residential Appraisal Report. Where the appraisal is not submitted to UCDP, the UAD 3.6 Uniform Residential Appraisal Report is required when the date of the appraisal report (the appraiser's signature date) is on or after November 2, 2026. References in this Standard to a legacy form number include the corresponding UAD 3.6 report.

A full appraisal must not be more than 365 days old on the date of the note. A Fannie Mae approved appraisal update on Form 1004D/442, completed by the appraiser who performed the original appraisal, is required on appraisals older than 120 days. An update extends the usable life of the original appraisal to the 365-day limit and may be obtained more than once within that period.

Comparable selection. The age and price of the subject property should fall within the range of properties in the subject neighborhood. Comparables should be drawn from the subject neighborhood where possible; a comparable selected from outside the neighborhood must be addressed by the appraiser in the report. For condominium units other than condotels, at least one comparable must come from outside the subject project; condotel comparables follow Section 9.1.3. Comparable sales should be dated within six months of the effective date of the report; older comparables used as the best indicator of value must be supported by appraiser commentary.

A new appraisal must be ordered for this origination. Using the same appraisal from a previous origination for this subsequent transaction is not allowed.

9.2.1. Appraiser Qualifications and Independence

The appraiser must hold a state license or state certification, in the state in which the property is located, that is appropriate for the assignment under applicable law and Fannie Mae requirements, must carry errors and omissions coverage, must not appear on any exclusionary list, and must have demonstrated competency in the property type and market.

A trainee, apprentice, or licensed appraiser working under supervision may perform the inspection and prepare the report only where the supervisory appraiser is state-licensed or state-certified, signs the report and accepts full responsibility for it.

The appraisal must be prepared in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP) and must comply with the Appraiser Independence Requirements and Regulation Z, including the requirements for higher-priced mortgage loans where applicable. Photographs in the appraisal report must be in color. The appraiser must not have a direct or indirect interest, financial or otherwise, in the property or in the transaction. Appraisals must be ordered through an appraisal management company or an independent internal ordering function separated from production.

The Seller must maintain a reconsideration of value process available to the borrower, and the appraiser's response must be documented. A reconsideration of value may not be used to communicate a target value to the appraiser.

9.2.2. Appraisal Transfers

An appraisal transferred from another lender is acceptable where all of the following are provided:

- A transfer letter from the transferring lender, on its letterhead, certifying that the appraisal was obtained in compliance with the Appraiser Independence Requirements and that it may be transferred
- The appraisal is addressed to, or readdressed to, the Seller
- The report is within the age limits in Section 9.2, with an update where required
- The secondary valuation review product required under Section 9.2.3 is obtained by the Seller. A review product obtained by the transferring lender is not acceptable.

9.2.3. Secondary Valuation

A secondary valuation review product is required for all loans. Any warnings from the Submission Summary Report (SSR) must be reconciled on the 1008. The valuation review waterfall below applies to every transaction, including loans for which no Collateral Underwriter (CU) or Loan Collateral Advisor (LCA) score is available. Where both CU and LCA are run, they must be run at the same time, and a passing score from either one satisfies Step 1.

Step	Scenario	Required Action
1	Appraisal submitted to Fannie Mae's Collateral Underwriter (SSR) with a CU score ≤ 2.5, or submitted to Freddie Mac's Loan Collateral Advisor with an LCA passing score	No further valuation review product is required, with the exception of properties located in the counties identified in Section 4.2, which require a CDA from Clear Capital regardless of the CU or LCA score
2	CU score > 2.5 with no LCA passing score, no CU or LCA score is available, or the appraisal was not submitted to CU or LCA	A desk review from one of the following, or a Field Review, is required: Collateral Desktop Analysis (CDA) from Clear Capital; Appraisal Risk Review (ARR) from Stewart; or Consolidated Collateral Analysis (CCA) from Consolidated Analytics
3	The desk review value is more than 10% below the appraised value or sales price, or more than 5% below where the LTV is greater than 85%	A Field Review or a second full appraisal is required. The same allowable tolerances apply to the Field Review value: 10% at LTVs of 85% or below; 5% above 85% LTV. Review values above the appraised value are not subject to any tolerance limit
4	The Field Review value is also outside the applicable tolerance	A second full appraisal is required. The lower of the two appraisal values must be used to calculate LTV/CLTV.

9.2.4. Second Appraisal

One appraisal is required for loan amounts of $2,000,000 or less unless a second appraisal is required under another provision of this section. Two appraisals are required in the following scenarios:

- Loan amounts greater than $2,000,000
- HPML flip transactions as described in Section 3.1.2.2
- Where required under the valuation review waterfall in Section 9.2.3

The second appraisal must be completed by a different appraiser and a different appraisal company than the first appraisal. The two appraisers may be engaged through the same appraisal management company (AMC); use of a single AMC to order both appraisals is permitted.

Where both reports name the same appraiser, or different appraisers employed by the same appraisal company, a further appraisal from an unrelated appraiser is required.

When two appraisals are obtained for a loan, no additional review product is required and the valuation review waterfall in Section 9.2.3 does not apply, including the CDA otherwise required for the counties listed in Section 4.2. LTV must be calculated based on the lower of the two appraisal values.

9.2.5. Minimum Property Requirements

The property must be complete, habitable, and free of health and safety deficiencies.

Appraisals completed "subject to" repairs require evidence of completion in the form of a Fannie Mae Form 1004D with photographs prior to closing, except where an escrow holdback is permitted under Section 9.4.

Personal property may not be included in the sales price or the appraised value. Where the sales contract includes personal property, its value must be deducted from the sales price prior to calculating LTV.

9.3. Declining Market

When the property is in a declining market a 5% LTV reduction from the max LTV/CLTV for the transaction and occupancy type is required. Declining market is determined by the appraisal.

No reduction is applied where the transaction LTV/CLTV is 65% or lower.

A third-party valuation product, broker price opinion, automated valuation model, desk review, or state-level designation is not used to determine a declining market.

9.4. Escrow Holdbacks

Delegated Correspondent Sellers. A Delegated Seller may close a purchase transaction with an escrow holdback for weather-related delays or minor cosmetic items. The estimated cost of completion may not exceed the lesser of $25,000 or 10% of the appraised value, 120% of the estimated cost of completion must be escrowed, and the work must be completed within 120 days of closing. Onity Mortgage Corporation will not purchase the loan while a holdback is open; the loan is eligible for purchase only after the work is completed and a Fannie Mae Form 1004D with photographs evidencing completion is in the file. Escrow holdbacks are not permitted on refinance transactions.

Non-Delegated Correspondent Sellers. Escrow holdbacks are not permitted. Onity Mortgage Corporation makes the credit decision on a Non-Delegated loan and purchases the loan at closing, so all repairs must be complete before closing.

9.5. Disaster Areas

Sellers are responsible for identifying areas impacted by disasters and ensuring that the subject property has not been adversely impacted. A list of federally declared disaster areas may be found on the FEMA website at http://www.fema.gov/disasters.

In addition, **where there is knowledge of an adverse event occurring near or around the subject property** — including but not limited to earthquakes, floods, tornadoes, or wildfires — **additional due diligence is required** to determine whether the disaster area guidelines must be followed. A federal declaration is not required to trigger this review.

Guidelines for disaster areas must be followed for ninety (90) days from the end of the incident period, unless a completed appraisal dated post-incident is provided.

Appraisal Completed Prior to the Disaster.

An appraisal update or final inspection from the appraiser must be obtained.

Appraisal Completed After the Disaster Incident.

The appraiser must comment on the adverse event and any effect on marketability or value.

Disaster Incident Occurs After Closing, Prior to Purchase.

A **Post Disaster Inspection (PDI) Report from Clear Capital**, or a **Damage Assessment Report (DAR) from Stewart (formerly Pro Teck)**, must be provided. The report must include exterior color photographs of the subject property and the street scene, verification of the property address, and color photographs and a description of any damage from the disaster with the cost to cure where applicable. **Any indication of damage reflected on the report will require a re-inspection by the appraiser.**

Damage Threshold.

Any damage, including damage that impacts the safety or habitability of the property or damage in excess of $2,000, must be remediated prior to purchase and a re-inspection obtained with evidence that repairs were completed in a workmanlike manner. This applies to all three circumstances above.

Verbal Verification of Employment.

Refer to Section 8.3.4 for standard verification of employment requirements.

A new Verbal Verification of Employment must be obtained where the disaster event occurs after the original VVOE was completed. The borrower must still be employed by the same employer, or for a self-employed borrower operate the same business, listed on the initial 1003 and continue to receive the same amount of income. This requirement applies to every borrower using employment or self-employment income to qualify.

9.6. Property Insurance

All hazard insurance must meet Fannie Mae guidelines except as stated in this section. On a Business Purpose Loan, the policy must be a landlord, rental-dwelling, or investor policy, not a homeowner's policy (Section 1.5.1).

Cancellation policy. A separate hazard insurance cancellation policy or cancellation-notice endorsement is **not required**. Onity follows Fannie Mae, which does not require one.

Requirement	Standard
Coverage amount	The lesser of 100% of the insurable replacement cost or the unpaid principal balance, provided the amount is at least 80% of the insurable replacement cost
Declaration page	Required on all transactions
Maximum deductible, 1-4 family residences	5% of the coverage amount
Maximum deductible, named storm, hurricane, wind and hail	5% of the coverage amount
Maximum deductible, Condominium and PUD master policy	The greater of $10,000 or 5% of the coverage amount
Refinance transactions	The Hazard Insurance effective date must be no more than 30 days after the note date

Requirement	Standard
Mortgagee clause	Onity Mortgage Corporation, its successors and/or assigns, ATIMA

Carrier eligibility. The insurer must satisfy the applicable Fannie Mae insurer eligibility and financial-strength requirements. A state-sponsored FAIR Plan, wind pool, citizens plan, or similar residual-market policy is acceptable only where permitted by Fannie Mae requirements and applicable law.

Condominium. An HO-6 insurance policy must provide coverage, as determined by the insurer, that is sufficient to repair the condominium unit to at least its condition prior to a loss claim event. The HO-6 requirement is waived where the master policy provides walls-in coverage, evidenced by the policy or a certificate from the insurer. Fidelity or crime coverage is required for projects of more than 20 units.

Flood. Flood insurance is required where any portion of the improvements is located in a Special Flood Hazard Area. Coverage must equal the lesser of the maximum available under the NFIP, 100% of insurable replacement cost, or the unpaid principal balance. Private flood insurance meeting the Biggert-Waters criteria is acceptable. Escrow is mandatory. A life-of-loan flood zone determination from an approved vendor, transferable to Onity Mortgage Corporation and its successors, is required on every loan.

A borrower-signed loss payable endorsement is not required. The standard mortgagee clause is sufficient.

9.7. Title Insurance

Title policies must meet Fannie Mae guidelines. Title policy must include a minimum 24-month history of property ownership from the effective date of the policy or preliminary report. All transfers of title within the last six-month period must be disclosed and fully investigated. Property flips are subject to additional restriction (Section 3.1.2). A homestead is not considered as being on title.

The Title Commitment and Closing Protection Letter must be dated within 60 days prior to Note Date.

9.8. Property Taxes

Property taxes must be based on the value of the land and all completed improvements. For new construction, full renovation, or newly subdivided property, the estimate must reflect the assessor's projected completed assessment.

The file must include a completed tax information sheet, tax certification, preliminary title report with tax information, or other documentation from the taxing authority. If third-party documentation is unavailable, the loan file must calculate taxes using the applicable county or city millage or tax rate. On California purchase transactions, compare the documented calculation to 1.25% of the purchase price and use the higher figure; if third-party documentation is unavailable, use 1.25% of the purchase price.

All special assessments must be included in PITIA.

A property tax exemption may be used only where the exemption will remain applicable to the borrower after closing and is verified with the taxing authority, with the evidence described in Section 2.6. A homestead or owner-occupancy exemption cannot remain on an investment property. On any investment property loan, including every Business Purpose Loan and DSCR transaction, property taxes are calculated without a homestead or owner-occupancy exemption, and any such exemption claimed by the seller or the borrower is removed from the figure used in PITIA and in the DSCR calculation. A homestead exemption claimed by the borrower on the subject property is inconsistent with the Business Purpose and Occupancy Affidavit and must be resolved before closing.

10. Debt Service Coverage Ratio (DSCR)

10.1. DSCR Program Parameters

All other Sections of this Standard apply to DSCR transactions except where this Section 10 states a different requirement, in which case Section 10 governs.

All DSCR program parameters are published on the **FlexIQ Non-Agency DSCR Program Matrix**, including eligible products and product codes, the LTV/CLTV grids by loan amount, credit score and DSCR band, LTV/CLTV overlays, maximum cash-in-hand, reserve requirements, minimum loan amount, and appraisal requirements by loan amount.

Maximum aggregate exposure to a single borrower is stated in Section 4.10 and applies to DSCR transactions without modification. There is no separate DSCR exposure sub-limit.

The Program Matrix controls those parameters. This Section states the underwriting requirements that apply to DSCR transactions.

10.2. Business Purpose

All DSCR loans are “Business Purpose Loans”; therefore, to be eligible for the product, the property may not be occupied by the borrower, any member of the borrower’s family, or any owner of a borrowing entity at any time and under any circumstance and all cash out proceeds must only be used for business purposes (e.g., acquisition/maintenance/improvement of rental properties).

Each borrower and guarantor must certify that they understand that consumer protection laws applicable to consumer loans will not apply to their business purpose loan and must execute the Business Purpose and Occupancy Affidavit (Exhibit 12.5) as required by Section 1.5.1.

Loans meeting this definition of “Business Purpose” are not subject to ability to repay and TRID disclosure requirements.

The Fannie Mae Form 3170 1-4 Family Rider, which includes the Assignment of Rents, must be executed with the security instrument and included in the origination file on all DSCR transactions.

10.3. Borrower / Guarantor Experience

Homeownership experience and investor experience are separate eligibility tests. At least one borrower or guarantor must satisfy the prior homeownership requirement below. A transaction is treated as an Experienced Investor transaction when at least one borrower or guarantor meets the Experienced Investor definition in Section 10.3.1. When no borrower or guarantor meets that definition, the transaction is treated as a First Time Investor transaction and all First Time Investor requirements apply.

Prior homeownership requirement. At least one borrower or guarantor must have owned residential real estate in the United States for at least 12 consecutive months during the three-year period preceding the Note date. The property may have been financed or owned free and clear. Rental history alone does not satisfy this requirement. Document the ownership period and, where the property was owned free and clear, the free-and-clear status and current property taxes in accordance with Section 5.4.

A loan is ineligible when every borrower and guarantor is a First Time Homebuyer as defined in Section 4.5. Document the required housing payment history in accordance with Section 5.4. The maximum housing payment history on the subject property and the borrower’s primary residence is stated on the DSCR Program Matrix.

Employment income may be disclosed on the loan application. Employment income is not verified and is not used to qualify, and disclosure has no effect on eligibility. Employment verification is not required on DSCR transactions.

10.3.1. Experienced Investor

An Experienced Investor is a borrower or guarantor who has at least 12 consecutive months of documented ownership and management of commercial or residential rental real estate in the United States within the three years preceding the Note date. At least one borrower or guarantor must meet this definition for the transaction to be treated as an Experienced Investor transaction. Other borrowers and guarantors are not required to meet the Experienced Investor definition or the prior homeownership requirement in Section 10.3.

Proof of landlord history is required. Examples include: third-party documentation such as DataVerify/Fraud Guard/MERS, a lease agreement that has been in effect for at least 12 months, 12 months of rental receipts, 12 months short term rental remittance statements, or Schedule E.

10.3.2. First Time Investor

A First Time Investor transaction is one in which the prior homeownership requirement in Section 10.3 is met, but no borrower or guarantor meets the Experienced Investor definition above.

- Minimum 680 FICO

- Maximum 75% LTV/CLTV
- Minimum 1.00 DSCR
- Minimum 12 months reserves
- 0x30x12 housing payment history
- 1-4 units

A First Time Investor who is living rent free is not eligible.

10.4. Property Income Analysis and DSCR Calculation

Loan Structure	Calculation
Full Principal and Interest loans	Qualifying monthly rent (Section 10.4.1 or 10.4.2) divided by PITIA of the subject rental
Interest Only loans	Qualifying monthly rent (Section 10.4.1 or 10.4.2) divided by ITIA of the subject rental

Refer to the DSCR Program Matrix for the maximum LTV/CLTV applicable to each DSCR band and credit score, and for the overlays that reduce it.

Rent credits and security deposit credits transferred to the borrower under the assignment of leases and rents on a DSCR purchase are not interested party contributions and do not count toward the limits in Section 3.8. The borrower's minimum borrower contribution under Section 6.6 must be verified from the borrower's own funds before any such credit is considered.

Long-term gross rental income is used at 100% in the DSCR calculation. Short-term rental income follows Section 10.4.2: 80% of gross amounts, or 100% of amounts net of all management, platform, and vendor fees.

Property income for DSCR transactions is determined exclusively under this Section. Section 8.6 (Rental Income) does not apply to DSCR transactions.

10.4.1. Long-Term Rental Income

The gross monthly rent determined in the table below is used at 100% in the DSCR calculation (Section 10.4). A Comparable Rent Schedule (Form 1007 or Form 1025) is required on every DSCR transaction.

Transaction	Gross Monthly Rents
Purchase, leased	The lower of the lease agreement amount or market rent from the Form 1007/1025. Where the property has a current tenant who will continue to occupy the property, or the borrower has an executed lease agreement that will commence within 60 days after the note date, a copy of the lease agreement is required.
Purchase, unleased	Market rent from the Form 1007/1025
Refinance, leased	The lease agreement amount. When the lease agreement is greater than the market rent from the 1007/1025, the lower of the lease agreement or 120% of the market rent may be used with 3 months current proof of receipt of the higher rental income (not including the security deposit). Without that proof of receipt, the market rent from the 1007/1025 is used.
Refinance, tenant in place without a current written lease (expired lease converted to month-to-month, or no written lease)	The lower of market rent from the Form 1007/1025 or the rent evidenced by the most recent two (2) months of receipts (bank statements or payment processor records). The expired lease, where one exists, must be in the file. No LTV reduction applies.
Refinance, unleased	Refer to Section 10.5

If the tenant of the subject property is a family member of the borrower, the transaction is not eligible (Sections 1.5.1 and 10.2).

10.4.2. Short-Term Rental Income

Short-Term Rental Income (nightly, weekly, monthly, or seasonal rentals, such as AirBNB/VRBO/HomeAway income) may be used on 1-4 unit properties across all DSCR bands on the Program Matrix.

10.4.2.1. Eligibility

All of the following must be met:

Requirement	How Verified
Short-term rental use is legally permissible (city, county, etc.) and licensed where applicable	Documentation verifying that local ordinances are met, or the appraiser's statement that short-term rental use is legally permissible. Where registration or a permit is required, a copy of the current license or permit.
Condominiums, PUDs, and any property subject to a homeowners association — short-term rental use is permitted by the association	**Required in addition to the row above.** Evidence must be a condominium association or HOA letter, the completed project questionnaire response addressing short-term rental, or the recorded covenants. Appraiser commentary does not satisfy this requirement.
Short-term rental activity is common for the area	Appraiser comment on the prevalence of short-term rental activity and any impact on marketability

A property in a jurisdiction whose code of ordinances prohibits short-term rental is ineligible where STR income is used to qualify. A condominium, PUD, or association-governed property whose governing documents prohibit or restrict short-term rental beyond the terms under which the income was projected is likewise ineligible.

For an association-governed property, the association evidence is required whether or not the jurisdiction permits short-term rental; a permissive ordinance does not override a restrictive covenant.

10.4.2.2. Documentation and Calculation

Method	Requirements	DSCR Calculation
Short-term rental market analysis completed by a licensed appraiser — any form or format, including Form 1007/1025 with an STR addendum, a narrative addendum, or an AMC-published STR analysis form	Must be completed by a licensed appraiser. Must state the source of the data, include comparable STR properties focusing on room count, gross living area, location and market appeal, include the daily rental rate and occupancy percentage, and factor seasonality and vacancy into the analysis.	**80%** of the monthly Gross Rents
AirDNA Rental Analysis	Purchase transactions only. Must meet Section 10.4.2.3.	**80%** of Projected Revenue divided by 12 months
Refinance — 12-month platform history	A 12-month remittance statement from a professionally managed company (Airbnb, VRBO, HomeAway, or a third-party property management provider). Documentation must include the property address or a unique property ID specific to the subject property. **In addition, a screen shot of the online listing must show the property is actively marketed as a short-term rental.**	100% of the net operating amount where the statement itemizes the operating expenses — platform fees, management fees, cleaning, and similar operating deductions — as reflected on VRBO, Airbnb, or management-company rental statements; 80% of the gross booking amount where operating expenses are not reflected. Divided by 12 months

Where short-term rental income is documented by more than one method, the lowest result must be used. Across all methods, 80% applies to gross amounts. 100% applies only to net operating amounts — where the operating expenses are seen on the statement, as with VRBO and Airbnb remittance statements and management-company rental statements.

10.4.2.3. AirDNA Parameters

Parameter	Requirement
Forecast period	Must cover 12 months and be dated within 90 days of the Note date
Revenue projection basis	Average daily rental rate multiplied by the occupancy rate
Comparable properties	Minimum three (3), similar in size, room count, amenities, availability, and occupancy
Market Score or Sub-Market Score	**Must be 60 or greater** as reflected on the Property Earning Potential Report
Occupancy rate	No minimum occupancy rate applies

A report failing any parameter above may not be used.

10.4.2.4. Additional Considerations

- **Seasonality.** Where the market is seasonal, the analysis must cover a full 12 months. A projection built on peak-season rates alone may not be used. A seasonal short-term rental must be qualified on the full 12-month

calculation, including months with no receipts. A single deposit, or a single month of receipts, is not acceptable evidence of short-term rental income; a minimum of three (3) months of receipts within the required history is required.

- **Properties owned less than 12 months** may be considered on a case-by-case basis using the appraiser short-term rental market analysis method in Section 10.4.2.2, together with the settlement statement confirming the purchase date.
- **Conversion from long-term to short-term rental.** Use the documentation method matching the current use and obtain a borrower letter of explanation addressing the conversion and its timing.
- **Furnishings and personal property** may not be included in the appraised value.

10.5. Vacant and Unleased Properties

Refinance. A vacant or unleased property as indicated on the appraisal is eligible. Market rent from the Form 1007/1025 is used. One of the following treatments applies:

Option	Treatment
LTV reduction	Maximum LTV/CLTV is the lesser of 70% or the program maximum. The full market rent is used as the gross monthly rent; the Section 10.4 calculation applies.
Income reduction	No LTV reduction is applied and the program maximum applies. Market rent is reduced to 75% and used as the gross monthly rent; the Section 10.4 calculation applies.

A borrower letter of explanation addressing the vacancy and the intended rental plan is required under either option.

Where the subject property has undergone recent renovation or rehab and the appraiser confirms the work completed with visual evidence, neither the LTV reduction nor the income reduction applies, and the full market rent is used as the gross monthly rent up to the program maximum LTV/CLTV.

Purchase. A vacant property is eligible without LTV restriction. Market rent from the Form 1007/1025 is used at 100%.

10.6. DSCR Transaction Requirements

Tradelines. Because no borrower income is used to qualify and the debt service coverage of the subject is relied upon alone, the minimum tradeline requirements of Section 5.5 apply to every borrower and guarantor and may be met on a combined basis under Option 3.

Reserve waiver. Reserve requirements are waived on a DSCR Rate Term transaction where all of the following are met: the loan amount is less than $650,000; the mortgage history is 0x30x24 on all mortgages, or 0x30 since inception where the subject property has been owned between twelve (12) and twenty-four (24) months; the subject property housing payment is decreasing; and the borrower and each guarantor have no prior bankruptcy, foreclosure, short sale, deed-in-lieu, pre-foreclosure, or mortgage charge-off. The waiver does not apply to the First Time Investor reserve requirement in Section 10.3.2 or to Cash-out Refinance transactions.

Item	Requirement
Delayed Financing	Eligible and underwritten as a Rate Term transaction. Refer to Section 3.3.
Inherited and legally awarded properties	Cash-out seasoning relief applies. Refer to Section 3.4.3.
Gift funds	Permitted for down payment and closing costs on purchase transactions in accordance with Section 6.6. Minimum 1.00 DSCR is required. Gift of equity is not permitted.
Large deposits	No threshold applies; refer to the DSCR row in Section 6.7.
Collections and charge-offs	May be disregarded unless title is impacted. Refer to Section 5.9.
Subordinate financing	New subordinate financing is not allowed. Existing subordinate financing may remain when it is subordinated to the subject loan and recorded (Section 3.7). Not permitted when the subject first mortgage has an Interest-Only feature.
Non-arm's length transactions	Not permitted
Texas 50(a)(6) and 50(a)(4)	Not eligible
Employment income disclosed on the application	Permitted. Refer to Section 10.3.
Rural properties	Eligible. Refer to Section 9.1.5.

11. Product Codes

Full Documentation and Alternative Documentation

Description	Amortization Term	Interest Only Period	Product Code
Non-Agency Full Doc 40 Yr. Fixed	480 months	N/A	NAFULL40P
Non-Agency Full Doc 40 Yr. IO Fixed	360 months	10/30	NAFULL40FRM_IOP
Non-Agency Full Doc 30 Yr. Fixed	360 months	N/A	NAFULL30P
Non-Agency Full Doc 30 Yr. IO Fixed	240 months	10/20	NAFULL30FRM_IOP
Non-Agency Full Doc 15 Yr. Fixed	180 months	N/A	NAFULL15P
Non-Agency Alt Doc or Bank Stmt. 40 Yr. Fixed	480 months	N/A	NAALT40P
Non-Agency Alt Doc or Bank Stmt. 40 Yr. IO Fixed	360 months	10/30	NAALT40FRM_IOP
Non-Agency Alt Doc or Bank Stmt. 30 Yr. Fixed	360 months	N/A	NAALT30P
Non-Agency Alt Doc or Bank Stmt. 30 Yr. IO Fixed	240 months	10/20	NAALT30FRM_IOP
Non-Agency Alt Doc or Bank Stmt. 15 Yr. Fixed	180 months	N/A	NAALT15P

Debt Service Coverage Ratio

Description	Amortization Term	Interest Only Period	Product Code
Non-Agency Debt Service Coverage 30 Yr. Fixed	360 months	N/A	DSCR30P
Non-Agency Debt Service Coverage 30 Yr. Fixed I/O	240 months	10/20	DSCR30FRM_IOP
Non-Agency Debt Service Coverage 15 Yr. Fixed	180 months	N/A	DSCR15P

Asset Qualification loans are delivered under the Alternative Documentation product codes. Refer to the individual Product Description and Program Matrix for all program parameters.

12. Exhibits

Exhibit	Description
12.1	Officer's Certificate Example
12.2	LLC Borrowing Resolution Example
12.3	Corporate Borrowing Resolution Example
12.4	Personal Guaranty Agreement Example
12.5	Business Purpose and Occupancy Affidavit
12.6	Non-Occupant Co-Borrower Certification Example
12.7	Borrower Ability to Repay Attestation Example
12.8	Rent-Free Letter Example
12.9	Full Review Condominium Questionnaire
12.10	Exception Request Form

The exhibits listed above and the Entity Review Checklist (Section 4.8.2) are published separately from this Standard and are available from Onity Mortgage Corporation upon request. Where this Standard names an Onity form, other than the Entity Review Checklist (Section 4.8.2), a similar form containing the same information is acceptable. A signed borrower letter containing the same information is acceptable only in place of Exhibits 12.6 and 12.7 and the Business Narrative (Section 8.4.2.1). Forms generated through Docutech or Ellie Mae should be utilized where available.

13. Change Log

Changes to this Standard are recorded below by version. The version in effect on the rate lock date governs the loan.

Version	Published	Effective	Sections	Change
1.1	10/8/2026	10/12/2026	All	Version 1 of the full rewrite.