Wholesale Lending Division

NON-QM LOAN ELIGIBILITY GUIDELINES

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1 INTRODUCTION

CAKE Mortgage Corp. (hereinafter referred to as "CAKE") is dedicated to serving mortgage brokers and loan officers by providing a comprehensive suite of wholesale mortgage lending solutions. As a wholesale lender, CAKE offers a diverse selection of loan products, competitive pricing, and streamlined processing — empowering mortgage professionals to deliver exceptional service to their clients.

With a commitment to building strong partnerships and providing outstanding service, CAKE works closely with brokers and loan officers to simplify the lending process and ensure timely closings. By leveraging technology and industry expertise, CAKE strives to be a trusted partner for mortgage professionals, offering the support and resources needed to succeed in today's dynamic housing market.

These Underwriting Guidelines establish the eligibility requirements for CAKE's Non-QM loan programs. Satisfaction of these guidelines does not constitute a commitment by CAKE to fund or close a loan. CAKE retains sole discretion in its decision to fund any loan.

Note: If a topic is not addressed within these guidelines, CAKE will align with Fannie Mae (FNMA) Chapter B3-1, Manual Underwriting guidelines.

1.1 Fair Lending Policy

CAKE complies fully with all applicable provisions of the Fair Housing Act and the Equal Credit Opportunity Act, as well as applicable federal, state, and local requirements. The Fair Housing Act prohibits discrimination in housing-related activities based on race, color, religion, national origin, sex, handicap, or familial status. The Equal Credit Opportunity Act prohibits discrimination in any aspect of a credit transaction based on sex, race, color, religion, national origin, marital status, age, receipt of public assistance, or the exercise of any right under the Consumer Credit Protection Act. CAKE does not condone discrimination in any mortgage transaction.

1.2 High-Cost Loans

Federal, state, and local high-cost loans are not permitted. Loans meeting the definition of "high cost," "high risk," "covered," "subprime," or any similar designation are not eligible.

1.3 Ability to Repay (ATR)

All loans are subject to ATR Rules. CAKE is required to make a reasonable, good-faith determination that a borrower has the ability to repay the loan. The ATR evaluation must consider the following eight underwriting factors:

1. Current or reasonably expected income or assets sufficient to repay the loan.
2. Employment status.
3. Monthly mortgage payments on the loan (fully indexed, fully amortized).
4. Monthly payments on any simultaneous loans secured by the subject property.
5. Monthly payments for property taxes, hazard insurance, HOA fees, or ground lease.
6. Debts, alimony, and child support obligations.
7. Monthly debt-to-income (DTI) ratio or residual income.
8. Credit history.

2 ELIGIBILITY

2.1 Eligible Borrowers

The following borrower types are eligible under CAKE's Non-QM guidelines:

2.1.1 U.S. Citizens

- Eligible without restriction.

2.1.2 Permanent Resident Aliens

An individual admitted to the United States as a lawful permanent resident. Acceptable evidence of permanent residency includes:

- Alien Registration Receipt Card I-551 (Resident Alien Card); or
- A non-expired foreign passport containing a non-expired I-551 stamp valid, reading: "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until [mm-dd-yy]. Employment Authorized."
- Eligible without guideline restrictions.

2.1.3 Non-Permanent Resident Aliens

An individual admitted to the United States as a lawful temporary resident. The borrower's employment authorization must be validated via an Employment Authorization Document (EAD) or a visa permitting employment. All non-permanent resident alien borrowers must provide evidence of legal U.S. presence using one of the following:

- Visa — Documents must be current as of the Note date. If the visa has expired, a valid USCIS Form I-797 confirming a submitted renewal application is required.
- EAD Card — Documents must be current as of the Note date. If the EAD has expired, the borrower must provide evidence of an extension application or an employer letter confirming continued sponsorship.

2.1.4 ITIN Borrowers

A Non-Permanent Resident Alien without a Social Security Number (SSN) may qualify using an Individual Taxpayer Identification Number (ITIN), subject to the following:

- Borrower must possess a valid ITIN card or IRS ITIN letter.
- An unexpired government-issued photo ID (e.g., driver's license or international passport) is required.
- A U.S. credit report is required for each borrower qualifying with an ITIN.

All non-U.S. citizen borrowers must evidence their residency status by providing applicable USCIS documentation. This requirement does not apply to ITIN borrowers.

2.2 Visa Eligibility Matrix

2.2.1 Visa Classifications — Non-Permanent Resident Aliens

Visa Type	Valid EAD	Description
B1/A3/G5	C17	Non-immigrant domestic servant (Visa and Valid EAD Card must be combined)
BC-1	N	Broadcaster in the U.S. employed by the International Broadcasting Bureau
BC-2, 3	Y	Spouse or child of BC-1
C-5; C-51	N	Employment creation
C-52–53	C09	Spouse or child of C-5 or C-51
DV-1, 2, 3	N	Diversity immigrant, spouse, or child
E-1, 2 / Spouse of E-1, 2	A17	Treaty/Trade investor or spouse

Visa Type	Valid EAD	Description
E-11/EB-1	N	Person with extraordinary ability in sciences, arts, education, business, or athletics
E-12	N	Outstanding professor or researcher
E-13	N	Multinational executive or manager
E-14/15	C09	Spouse or child of E-11, 12, or 13
E-21	N	Professional holding advanced degree or alien of exceptional ability
E-22, 23	C09	Spouse or child of E-21
E-3	N	Specialty occupation – Australia
E-31	N	Skilled worker
E-32	N	Professional holding baccalaureate degree
E-34, 35	C09	Spouse or child of E-31 or 32
EW-3	N	Other worker
EW-4, 5	C09	Spouse or child of EW-3
G-1, 2, 3, 4, 5	N / C04 (spouses & children)	Employees of international organizations and NATO; spouses and children
H1-B	N	Foreign nationals working in the U.S. in a specialty occupation
H-4	N/A	Spouse or child of H-type visa holder
I-5, 51	N	Investor in employment
I-52, 53	C09	Spouse or child of I-51
IH-3, 4	C09	Child adopted or to be adopted by U.S. citizen
L, L-1a, L-1b	N	Intracompany transferees
N/A	A02	Lawful temporary resident pursuant to Sections 245A or 210 of the INA
N/A	A03	Refugee
N/A	A05 or valid SSN Card	Asylum granted
N/A	A12	Temporary protected status
N/A	A13	IMMACT Family Unity beneficiary
N/A	A14	LIFE Act Family Unity beneficiary
N/A	All	Deferred Enforced Departure
N/A	A10	Granted withholding of Deportation or Removal
N/A	C11	Alien paroled into the U.S. in the public interest or temporarily for emergency reasons
N/A	C12	Spouse of an E-2 CNMI investor (eligible for employment in CNMI only)
N/A	C14	Alien granted deferred action
N/A	C16	Registry applicant
N/A	C19	Temporary Protected Status
N/A	C31	Principal beneficiary or qualified child of approved VAWA self-petition
N/A	C33	DACA
N/A	C10	Nicaraguan Adjustment & Central American Relief Act
N/A	C08	Asylum applicant, status pending

Visa Type	Valid EAD	Description
N-8 or N-9	A07	Parent or child of international organization employee granted permanent residence
NATO-1–6	C07	NATO members, staff, and families for temporary stay
O	N	Extraordinary ability in science, education, the arts, business, or athletics
R-1	N	Religious workers
R-5, 51	N	Investor in pilot program
R-52, 53	C09	Spouse or child of R-51
SD-1	N	Religious workers
SD-2, 3	C09	Spouse or child of SD-1
SE-1	N	Employees or former employees of the U.S. Government abroad
SE-2, 3	C09	Spouse or child of SE-1
SF-1	N	Former employees of the Panama Canal Company or Canal Zone Government
SF-2	C09	Spouse or child of SF-1
SG-1	N	Former employees of the U.S. Government in the Panama Canal Zone
SG-2	Y	Spouse or child of SG-1
SH-1	N/A	Certain former employees of the Panama Canal Company or Canal Zone Government as of April 1, 1979
SH-2	C09	Spouse or child of SH-1
SI	N	Interpreters
SJ-1	N	Foreign medical graduate
SJ-2	C09	Spouse or child of SJ-1
SK-1	N	Retired international organization employee
SK-2	C09	Spouse of SK-1
SK-3	C09	Unmarried child of an international organization employee
SK-4	C09	Surviving spouse of a deceased international organization employee
SN-1	N	Retired NATO-6 civilian
SN-2, 3	C09	Spouse or child of NATO-6 civilian employee
SN-4	C09	Surviving spouse of a deceased NATO-6 civilian employee
SQ	N	Iraqi or Afghan nationals who worked on behalf of the U.S. Government
SR-1	N	Religious workers
SR-2, 3	C09	Spouse or child of SR-1
T-1–4	A16 or C25	Victim, spouse, child, or parent of victim of human trafficking
T-5, 51	N	Employment creation
T-52, 53	C09	Spouse or child of T-51
TC NAFTA / TN / TD	N	Canadian or Mexican citizens working in the U.S.
U-1–4	A19 or A20	Victim or family member of victim of criminal activity

2.3 Eligible Title Vesting and Ownership

Acceptable forms of vesting include:

- Individuals
- Joint Tenants
- Tenants in Common (fractional ownership not allowed)
- Inter-Vivos Revocable Trust
- Limited Liability Company (LLC)
- Limited and General Partnerships
- Corporations

2.3.1 Business Entity Vesting

Ownership or title vesting in the name of a U.S. domestic LLC, partnership, or corporation (collectively, an "Entity") is acceptable for business purpose investment property transactions. Borrowing Entities are permitted exclusively under the DSCR program.

To vest ownership in an Entity while closing in the name of a natural person, the following requirements must be met:

- Business purpose and activities are limited to the ownership and management of real estate.
- The Entity is limited to a maximum of four (4) owners (i.e., members, partners, or shareholders).
- A minimum of 25% of the Entity's ownership must be represented as borrowers on the loan, each completing a Form 1003 as applicants.
- The loan application, credit report, income (if applicable), and assets for each borrowing Entity owner will be used to determine qualification and pricing.

The following Entity documentation must be provided:

- Entity Articles of Organization, Partnership Agreement, and Operating Agreement (if applicable).
- Employer Identification Number (EIN) Verification Form.
- Certificate of Good Standing.
- Certificate of Authorization for the individual executing all documents on behalf of the Entity.
- Entity documentation is required for both the state of formation and the state where the subject property is located, if they differ.

All documents must be completed and signed by each individual applicant in their capacity as an individual and as an owner of the vesting Entity, including:

- Business Purpose & Occupancy Affidavit — signed by each applicant Entity owner.
- Loan Application (Form 1003) — completed and signed by each applicant Entity owner. The "Title will be held in what Name(s)" section must list only the Entity name.
- Disclosures (GFE, TIL, Notice of Intent to Proceed, Servicing Disclosure, etc.) — completed and signed by each applicant Entity owner.
- Closing Disclosure — completed and signed by each applicant Entity owner.
- Note — signed by each applicant Entity owner.
- Guaranty — must be completed and signed by the member(s) representing at least 51% cumulative ownership of the Entity.
- Deed of Trust/Mortgage and all attached Riders — must be executed by the authorized Entity owner(s) who can legally bind the Entity as the vested owner of the subject property.

2.3.2 Layered Entities

Vesting in an entity where one or more members or managers is an entity is eligible, subject to the following:

- Layered entities are permitted up to two (2) layers.
- Entities layered with a trust are NOT eligible.

- Entity documentation as outlined in Section 2.3.1 must be received for all ascending entities comprising the overall ownership structure. A Certificate of Good Standing is required from the state of formation for the vesting entity and all subsequent ascending entities.

2.4 Power of Attorney

A Power of Attorney (POA) is permitted under the following conditions:

- Applicable to U.S. Citizens and Permanent Residents only.
- Eligible for Primary Residence, Second Home, and Investment Property transactions.
- Not permitted when vesting into an LLC, General Partnership, or Corporation.
- Must be transaction-specific and reference the subject property address.
- Eligible for Purchase and Rate/Term Refinance transactions only.
- Not eligible for cash-out transactions.
- Must be recorded with the Mortgage or Deed of Trust.
- Must contain an expiration date.
- May be used to execute final loan documents only.
- The borrower who executed the POA must have signed the initial Form 1003.
- An interested party to the transaction (e.g., seller, broker, loan officer, realtor) may not act as Power of Attorney.

2.5 Private Mortgage Insurance (PMI)

Private Mortgage Insurance (PMI) is not required on any Non-QM Full Doc or Alt Doc loans.

2.6 Guarantor Documentation

The following documentation is required for all guarantors:

- Loan Application (e.g., FNMA Form 1003) — completed for each Entity member providing a guaranty; must be signed by the individual. The "Title will be held in what Name(s)" section must reflect the entity name only.
- Credit report from all guarantors.
- Note, Deed of Trust/Mortgage, and all applicable Riders — must be executed by the guarantor in their capacity as an authorized signer for the Entity.
- Personal Guaranty — must be full recourse and must reference the Note and loan amount.

2.7 Ineligible Borrowers

The following individuals, organizations, and entities are not eligible:

- Borrowers with diplomatic immunity as defined by U.S. Citizenship and Immigration Services (USCIS).
- Persons from OFAC-sanctioned countries. Refer to: https://sanctionssearch.ofac.treas.gov/
- 501(c)(3) organizations.
- Trusts.
- Persons sanctioned by OFAC.
- Businesses or individuals whose income derives from a federally illegal business.
- Trusts or business entities whose members include other LLCs, Corporations, Partnerships, or Trusts.
- Guardianships.

2.8 Borrower Types

2.8.1 Primary Borrower

The occupying borrower who earns the greater share of qualifying income.

2.8.2 Co-Borrower

Any borrower other than the Primary Borrower who is jointly responsible for repayment of the loan. All co-borrowers must be on title.

2.8.3 First-Time Homebuyer (FTHB)

A first-time homebuyer is an applicant who has never previously owned real property and is purchasing a primary residence or investment property.

2.8.4 Non-Borrowing Occupant

Any individual residing in the security property who is not included in the loan qualifying process. A Non-Borrowing Occupant on title will be required to execute applicable documents to create a valid lien.

2.8.5 Non-Occupant Co-Borrower

- The original vested borrower(s) must occupy the subject property as their principal residence.
- The non-occupant co-borrower's credit and income must be relied upon in part for qualifying purposes.
- The non-occupant co-borrower(s) must execute all loan documents required for the loan program.
- The non-occupant co-borrower(s) must be concurrently added to title through closing.
- The non-occupant co-borrower may not have a vested interest in the subject property on purchase transactions.
- Co-signers that do not wish to take title may be reviewed on a case-by-case basis.

Note: A family relationship is not required, provided the transaction is considered an arm's length transaction.

2.8.6 Eligible Occupancy Types

- Primary Residence
  - Parents providing housing for disabled children or children providing housing for parents is allowed for purchase transactions and rate/term refinances only (cash-out refinance ineligible). The current living situation and insufficiency of income to qualify for a loan of the parents/disabled child must be documented. An LOE is also required from all parties confirming the parents/disabled child are/will occupy the subject as their primary residence and the reason for the transaction.
- Second Home — A property located a reasonable distance from the borrower's primary residence, occupied by the borrower for some portion of the year and suitable for year-round occupancy. and may not be used as a rental property. Second Homes are limited to: Single-Family Residences, Condominiums, PUDs, and Townhouses. Multi-unit properties are NOT permitted as Second Homes. If rental income from the property is identified, the loan is eligible as a second home as long as the income is not used for qualifying purposes, and all other requirements for second homes within this bullet point are met.
- Investment Property — A 1-to-4-unit property that the borrower does not occupy.

3 ELIGIBLE TRANSACTIONS

All investment properties may be eligible for business purpose financing. Borrowers must execute a Business Purpose and Occupancy Affidavit attesting that the loan is intended for business purposes and not for consumer or personal use. All refinance transactions must demonstrate a net tangible benefit.

3.1 Purchase

- A purchase transaction uses loan proceeds to finance the acquisition of a property.
- LTV/CLTV is based on the lesser of the sales price or appraised value.
- Assignment of contract or finder's fees reflected on the purchase contract are limited to no greater than $30,000 and must be included in the sales contract price for the LTV/CLTV calculation.
- Non-arm's length transactions are permitted for all occupancy types. See Section 3.5.
- 1031 Exchange transactions are permitted.

3.2 Rate/Term Refinance

- A Rate/Term Refinance is the refinancing of an existing mortgage to change the interest rate and/or term without advancing new money on the loan.
- Closing costs and prepaid items (interest, taxes, insurance), including prepayment fees, may be added to the new loan amount.
- Delinquent property taxes 60 or more days past due may not be paid through a Rate/Term Refinance.
- At least one borrower on the new loan must be on title of the subject property at the time of initial application. Exceptions are permitted if:
  - The borrower acquired the property through inheritance or was legally awarded the property (e.g., through divorce, separation, or dissolution of a domestic partnership); or
  - The property was previously owned by an inter vivos revocable trust and the borrower is the primary beneficiary of that trust.
- Payoff of a purchase money second deed of trust is permitted without seasoning.
- Payoff of a subordinate loan not used in the original acquisition of the subject property is permitted, provided:
  - Closed-end loan: at least 12 months of seasoning has occurred; or
  - HELOC: at least 12 months of seasoning has occurred and total draws over the prior 12 months are less than $2,000.
- Incidental cash-out on a Rate/Term or Debt Consolidation Refinance: maximum cash back is the greater of 1% of the new loan amount or $2,000.
- Current appraised market value is used regardless of the acquisition date.
- If the property was listed for sale within the 90 days preceding the application date, the lower of the appraised value or listing price must be used.
- For investment properties listed for sale within the 90 days preceding the application, a one-year prepayment penalty is required unless a prepayment penalty is prohibited by state law.
- The property must be removed from active listing prior to approval on any refinance transaction.

3.3 Cash-Out Refinance

- A Cash-Out Refinance is any refinance that does not meet the Rate/Term definition, including transactions in which the borrower receives cash proceeds.
- A mortgage secured by a property owned free and clear is treated as a cash-out refinance.
- The payoff of delinquent real estate taxes (60 or more days past due) is considered cash-out.
- Net proceeds from a cash-out transaction may be used to satisfy reserve requirements.
- Current appraised market value is used regardless of acquisition date.
- If the property was listed for sale within the 90 days preceding the application date, the lower of the appraised value or listing price must be used. The property must be removed from active listing prior to approval. For investment properties listed for sale within the 90 days preceding the application, a one-year prepayment penalty is required unless a prepayment penalty is prohibited by state law.
- At least one borrower must be on title at the time of initial application.
- Ownership seasoning ≤ 90 days (measured from acquisition date to Note Date) are subject to the following restrictions: 1) No credit exceptions allowed, 2) Additional 6 months in reserves required, 3) Full Doc and Bank Statement only, and 4) Transferred appraisals not allowed.
  - Properties acquired through inheritance or legal award (divorce, separation, dissolution of domestic partnership) are not subject to the above-referenced restrictions

3.4 Delayed Financing

Delayed financing is eligible when a property was purchased by a borrower for cash within 90 days prior to the Note date. The transaction is treated as a cash-out refinance for pricing and eligibility purposes, with no cash-in-hand limits. The following requirements apply:

- The original purchase was an arm's length transaction.
- The source of funds for the purchase is documented (e.g., bank statements, personal loan documents, or a HELOC on another property).

- Maximum LTV/CLTV is based on the lesser of the current appraised value or the previous purchase price plus documented improvements.
- The preliminary title report must confirm no existing liens on the subject property.
- The new loan amount may not exceed the documented amount of the borrower's initial investment, subject to applicable cash-out LTV/CLTV limits.

Note: Funds received as gifts and used to purchase the property may not be reimbursed through proceeds of the new mortgage loan.

3.5 Non-Arm's Length Transactions

A non-arm's length transaction is a purchase in which there is a relationship or business affiliation between the seller and the buyer. Examples include:

- Relatives, defined by blood, marriage, stepchild relationship, adoption, or legal guardianship.
- Buyer and seller who are related or associated in business.
- Developer and buyer who are related or associated in business.
- Real estate brokers or agents.
- Employee and employer relationships.

Requirements for non-arm's length transactions:

- Proof of non-default on any existing mortgage(s) is required. Acceptable documentation includes a VOM, the most recent mortgage statement, or a payoff demand that shows due for the current payment.
- A Letter of Explanation describing the relationship between the parties is required.
- Eligible for all occupancy types: Owner-Occupied, Second Home, and Investment Property.
- The loan transaction is ineligible if the borrower is also the noteholder of the seller mortgage(s) being paid off.

3.6 CEMA Loans

Consolidation, Extension, and Modification Agreement (CEMA) loans are available for New York refinance transactions only. CEMA transactions are required to close through a licensed attorney and are subject to the attorney's review and associated costs.

3.7 Texas Home Equity Loans — Section 50(a)(6)

A Texas Section 50(a)(6) mortgage is a home equity loan originated under Article XVI, Section 50(a)(6) of the Texas Constitution, which permits a borrower to extract equity from a homestead property under specified conditions. All such loans must comply with the requirements set forth in the Texas Constitution.

3.8 Ineligible Transactions

The following transaction types are not permitted:

- Assumable loans.
- Construction-to-Permanent loans.
- Builder Bailouts.
- Conversion Loans.
- Lease Options or Rent-to-Own arrangements.
- Land Contracts.
- Assignments of contract to another buyer in excess of $30,000.
- Graduated Payment Mortgage loans.
- Loans in which more than three (3) monthly payments are paid in advance from mortgage proceeds.

3.9 Secondary Financing

- All secondary financing must be subordinated and included in the CLTV calculation.
- Private-party secondary financing is not permitted.
- HELOC CLTV must be calculated using the maximum available line amount, unless the borrower provides documentation confirming the line is past its draw period.

3.10 Prepayment Penalty — Investment Properties

Where permitted by applicable laws and regulations, a prepayment charge may be assessed on investment properties within one (1) to five (5) years following the execution date of the Note.

4 CREDIT

A credit report is required for each individual borrower, including any member of an entity providing a personal guaranty. The credit report must provide merged credit data from all three major repositories: Experian, TransUnion, and Equifax. Either a tri-merged credit report or a Residential Mortgage Credit Report (RMCR) is required.

4.1 General Requirements

- Credit bureaus used in generating borrower credit reports must comply with the Fair Credit Reporting Act (FCRA).
- Appropriate borrower authorization is required prior to obtaining a credit report.
- Credit supplements must be included in and made part of the credit report.
- The credit report used to evaluate a loan may not reflect a security freeze. If a borrower unfreezes credit after the date of the original report, a new tri-merged report must be obtained.
- The credit report must be dated within 120 days of the Note and Mortgage.
- A gap credit report or Undisclosed Debt Notification (UDN) is required within 10 days of the closing date. Any new debt identified must be included in the DTI calculation.

4.2 Credit Score Requirements

- A minimum of two (2) credit scores is required unless otherwise specified in a product matrix. No FICO or single-FICO scoring is available on a limited basis as noted in the product matrix (no tradeline requirement must be met other than the requirements listed in the product matrix).
- The qualifying credit score is the lower of two scores or the middle of three scores.
- The credit score of the borrower with the highest qualifying income is used.
- If two or more borrowers have equal qualifying income, the higher middle credit score is used.

> Example: Two borrowers who are 50/50 business owners will have identical income. In this case, use the higher middle score of the two borrowers to qualify.

4.3 Tradeline Requirements

Only the Primary Wage Earner is required to meet the minimum tradeline requirements below. If the Primary Wage Earner has three (3) credit scores reporting, the tradeline requirements are considered met.

Minimum tradeline requirements:

- At least three (3) tradelines reporting for a minimum of 12 months, with activity within the last 12 months; or
- At least two (2) tradelines reporting for a minimum of 24 months, with activity within the last 12 months.

Borrowers who do not meet either of the above but have at least two credit scores may satisfy the requirement by meeting all of the following:

- No fewer than eight (8) tradelines reported, with at least one (1) being a mortgage or rental history.
- At least one (1) tradeline has been open and reporting for a minimum of 12 months.
- An established credit history of at least four (4) years.

If the borrower has a valid credit score but does not meet the tradeline requirement, alternative tradelines may be used as follows:

- If the borrower has one standard tradeline for 12 months → two (2) alternative tradelines for 12 months are required.

- If the borrower has one standard tradeline for 24 months → one (1) alternative tradeline for 24 months is required.

Acceptable alternative tradelines:

- 12- or 24-month rent verification (Professional Management Company VOR, or Private VOR plus 12 months of canceled checks).
- 12- or 24-month utility bill verification.
- 12- or 24-month phone bill verification.
- 12- or 24-month HOA bill verification.

The following are NOT acceptable as tradelines:

- Liabilities in deferment status.
- Accounts discharged through bankruptcy.
- Authorized user accounts.
- Charge-offs.
- Collection accounts.
- Foreclosures.
- Pre-foreclosure sales.
- Short sales.

4.4 Disputed Tradelines

All disputed tradelines must be included in the DTI calculation.

4.5 Credit Inquiries

- Credit inquiries appearing on the report within 90 days of the report date must be addressed by the borrower with a Letter of Explanation.
- If no credit was extended, the borrower must state the purpose of the inquiry.
- If new credit was extended, the borrower must provide documentation of the current balance and payment, and the new payment must be included in the DTI calculation.

4.6 Housing History

A Verification of Mortgage (VOM) and/or Verification of Rent (VOR) is required to support housing payment history and will be reviewed for delinquencies over the most recent 12 months.

- For all properties, the mortgage must be rated within 45 days of the application date.
- For the subject property, evidence must confirm the mortgage is current as of the closing date.

If a complete 12-month mortgage history is not reflected on the credit report, one of the following must be used to complete the payment history:

- Mortgage Payments: VOM, loan payment history from the servicer, credit supplement, or proof of payment (e.g., canceled check, ACH, bank transfer). For private mortgages, a fully executed VOM is required.
- Rental Payments: VOR (preferred; no additional documentation required). If a VOR cannot be obtained, an executed lease agreement plus either 12 months of bank statements reflecting recurring rent debits or 12 months of canceled checks may be used.

4.6.1 Rolling Delinquency

For 30-day late events: up to six (6) occurrences within a rolling period are counted as one (1) event. Events above 30 days late are each counted individually. Refer to the program matrix for mortgage/rental rating requirements.

4.7 No Housing History, Less Than 12 Months Verified, or Rent-Free

- Borrowers without a complete 12-month housing history are subject to program restrictions. Refer to the matrix for applicable DTI and LTV overlays.

- Borrowers who sold a primary residence within the prior six (6) months, are currently residing rent-free, and are purchasing a new primary residence are eligible, provided a 12-month mortgage history is documented on the previous primary residence.
- Properties owned free and clear are considered 0x30 (no delinquency).

Requirements for Rent-Free Borrowers:

- A rent-free letter is required. The signor must be the property owner or lessee and must provide evidence of ownership or their lease. A rent-free letter is not required for borrowers who are on title only.
- Refer to the matrix for applicable DTI and LTV restrictions.

4.8 Significant Adverse Credit Events

Adverse credit events, including forbearance, deferred payments, and loan modifications, are subject to the following:

- A borrower may not currently be in a forbearance plan.
- Refer to the matrix for seasoning requirements related to Bankruptcy, Foreclosure, Short Sale, Deed-in-Lieu, and Modifications.
- A mortgage modification resulting in any of the following is subject to Housing Event seasoning per the applicable matrix:
  - Forgiveness of a portion of principal and/or interest on either the first or second mortgage.
  - Application of a principal curtailment on behalf of the investor to simulate principal forgiveness.
  - Conversion of any portion of the original mortgage debt to a "soft" subordinate mortgage.
  - Conversion of any portion of the original mortgage debt from secured to unsecured.

Modifications that involve only changes to the interest rate, loan term, or amortization schedule are not subject to Housing Event seasoning. These modifications require only that the applicable payment history criteria are met.

4.8.1 Consumer Credit Counseling Services (CCCS)

- CCCS enrollment is permitted when at least 12 months have elapsed under the plan and timely payments for the most recent 12 months are evidenced.
- The CCCS administrator must provide a letter confirming the borrower is authorized to seek new financing while enrolled in the plan.
- The monthly CCCS plan payment must be included in the DTI ratio.
- The completion date must appear on the credit report or be verified by the counseling agency.

5 STANDARD INCOME DOCUMENTATION (FULL DOC)

Stable monthly income must be verified from all acceptable and verifiable sources with a reasonable expectation of continuance. While income sources may vary, borrowers are required to demonstrate a consistent level of earnings.

Employment gaps exceeding 60 days within the most recent two (2) year period require a satisfactory Letter of Explanation. The borrower must also be currently employed with their present employer for a minimum of six (6) months.

Second full-time employment may be used with no minimum employment history requirement. Part-time employment must have a minimum history of 12 months.

5.1 Wage/Salary Income

- The borrower's most recent paystubs reflecting 30 days of pay and year-to-date earnings, along with IRS W-2 forms or W-2 transcripts for the most recent one (1) or two (2) years as applicable; or
- Income verification from a FNMA-approved third-party vendor (e.g., The Work Number®) evidencing income for the most recent one (1) or two (2) years, including year-to-date earnings.
- FNMA WVOE Form 1005 is not eligible for standard income documentation unless used in conjunction with documents verifying variable income.

- When tax returns are required (e.g., for investment property REO income), the most recent one (1) or two (2) years of tax returns must be provided.
- Borrowers who filed for a tax return extension must provide a copy of the extension along with the applicable prior-year returns.
- IRS Form 4506-C is required for all Standard/Full Doc loans.

5.2 Self-Employment Income

- The most recent one (1) or two (2) years of signed and dated personal and business tax returns (including all K-1s and schedules), with evidence of filing.
- Evidence of filing may include: IRS Form 8879 e-File Signature Authorization, or an email from the tax preparation software confirming successful submission.
- If evidence of filing is not available, personal and corporate (IRS Form 1120) tax transcripts are required.

When analyzing tax returns, the following items may be added back to the income calculation:

- Depreciation.
- Depletion.
- Business use of home.
- Amortization/casualty loss.
- Ordinary income (loss) from other partnerships.
- Non-recurring other income (loss).
- Any expense that can be documented as one-time and non-recurring.
- Net operating loss carryforwards from years prior to the tax returns provided.

5.3 Income Types and Special Circumstances

5.3.1 Teacher Income

Teachers may be compensated on a 9-, 10-, 11-, or 12-month basis. The applicable pay structure must be identified before calculating monthly income. If the pay frequency cannot be determined, a copy of the employment contract or documentation from the school district's personnel office may be required.

5.3.2 Variable Income — Overtime, Bonus, and Commission

- Variable income is eligible provided the borrower has a minimum two (2) year history of receiving such income in the same line of work.
- Variable income received for less than one (1) year may not be used for qualification.
- Variable earnings must be averaged over the most recent one (1) or two (2) years, based on the documentation type, and supported by one of the following:
  - Most recent year-to-date paystub reflecting variable earnings; or
  - A completed Written Verification of Employment — FNMA Form 1005 detailing base, overtime, commission, or bonus earnings.

5.3.3 Alimony or Child Support

- Alimony or child support income is eligible with third-party documentation evidencing at least six (6) months of receipt.
- Documentation must confirm the support will continue for at least three (3) years, via a final divorce decree, separation agreement, or court order.
- The full amount of qualifying child support income may be treated as non-taxable and grossed up by 25% without supporting documentation.

5.3.4 Auto Allowance

- The borrower must have received payments for at least two (2) years.
- Add the full amount of the allowance to monthly income and the full amount of the lease or financing expenditure to the monthly debt obligations.

5.3.5 Capital Gains

- Capital gains income must be averaged over two (2) years and documented with the following:
  - Most recent two (2) years of personal tax returns (IRS Form 1040, Schedule D).
  - Third-party documentation confirming the income will continue for a minimum of three (3) years.
  - Capital losses do not need to be considered.

5.3.6 Disability Income — Long Term

- Long-term disability will not have a defined expiration date and should be expected to continue.
- Obtain a copy of the borrower's disability policy or benefits statement to verify the following:
  - Eligibility for the benefits.
  - Amount and frequency of payments, and current proof of receipt.
  - Whether a contractually established termination or modification date exists.

5.3.7 Employed by a Relative (Full Doc Only)

- Income for borrowers employed by a relative must be verified using Standard Documentation for two (2) years, including:
  - Federal income tax returns for the most recent two (2) years.
  - W-2s for the most recent two (2) years.
  - Paystub(s) covering the most recent 30-day period.
- Clarification of potential ownership of family-owned businesses by borrowers may also be required.
- A borrower may be an officer of a family-operated business, but not an owner.
- Verification of a borrower's status should be provided by written confirmation from a CPA or legal counsel.

5.3.8 Employment Offers or Contracts

- For borrowers starting new employment, the loan file must contain a copy of an executed offer letter or contract, plus the first paystub. The first paystub must be dated prior to the Note date.
- The offer or contract cannot be for employment by a family member or interested party to the transaction.

5.3.9 Foreign Income

- Foreign income is income earned by a borrower (U.S. Citizen or Permanent Resident Alien) who is employed by a foreign corporation or foreign government and is paid in foreign currency.
- Borrowers may use foreign income to qualify by providing:
  - Signed federal income tax returns or transcripts for the most recent two (2) years that include foreign income.
  - Standard documentation requirements based upon the source and type of income.
  - Any documents not in English or U.S. currency must be translated.

5.3.10 Foster Care Income

- Income received from a state or county sponsored organization for providing temporary care for one or more children may be considered acceptable stable income if the following requirements are met:
  - Verify the foster care income with letters of verification from the organizations providing the income.
  - Documentation verifying the borrower has received foster care income for a minimum one-year period.
  - Qualifying income is based upon the current amount received.

5.3.11 Interest and Dividends

- Document a two (2) year history of the income, as verified by copies of the borrower's federal income tax returns.
- Develop an average of the income received for the most recent two (2) years.
- Subtract any assets used for down payment or closing costs from the borrower's total assets before calculating expected future interest or dividend income.

5.3.12 Non-Taxable Income

- If income is verified to be non-taxable and expected to continue, an "adjusted gross income" may be developed by adding 25% of the non-taxable income to the borrower's qualifying income.
- Child support income may be grossed up by 25% without documentation confirming non-taxable status.

- Social Security income may be grossed up by 15% without documentation confirming non-taxable status.

5.3.13 Notes Receivable Income

- Note receivable income may be used for qualifying income subject to the following:
  - Verify that the income can be expected to continue for a minimum of three (3) years from the date of the mortgage application.
  - Obtain a copy of the Note to establish the amount and length of payment.
  - Document regular receipt of income for the most recent 12 months using canceled checks, bank statements, or federal tax returns.
  - Payments on a Note executed within the past 12 months, regardless of duration, may not be used as stable income.

5.3.14 Pension, Retirement, and Annuity

- If retirement income is paid in the form of a distribution from a 401(k), IRA, or Keogh retirement account, determine whether the income is expected to continue for at least three (3) years after the date of the mortgage Note.
- The borrower must have unrestricted access to the accounts without penalty.
- Document regular and continued receipt of income as follows:
  - **Pension / Social Security / VA:**
  - Award letter(s) from the organizations providing the income; or two prior years of 1099-R forms and 30 days of current proof of receipt.
  - To gross up, refer to Section 5.3.12 (Non-Taxable Income).
  - **401(k) / Keogh / IRA:**
  - Account statement(s) reflecting available balance for withdrawals; one year of 1099-R forms; one month's proof of current receipt; and a minimum 12-month history of withdrawals.

5.3.15 Royalty Income

- Obtain copies of the following:
  - Royalty contract, agreement, or statement confirming amount, frequency, and duration of the income.
  - The borrower's most recently signed federal income tax return, including IRS Form 1040 and Schedule E.
- Confirm that the borrower has received royalty payments for at least 12 months and that payments will continue for a minimum of three (3) years after the date of the mortgage Note.

5.3.16 Tip Income

- Tips and gratuity income may be considered if receipt of such income is typical for the borrower's occupation.
- Tip income should be received for at least two (2) years.
- Documentation will be based upon the documentation type selected (12 or 24 months). Obtain one (1) or two (2) years of federal income tax returns along with a year-to-date paystub. Income should be averaged over the time period verified.
- If tip income is not reported on paystubs or tax returns, it may not be included in qualifying income.
- WVOE program only requires FNMA Form 1005.

5.3.17 Trust Income

- Confirm trust income by obtaining a copy of the trust agreement or trustee's statement confirming the amount, frequency, and duration of payments:
  - Trustee statement evidencing the borrower is a beneficiary and income will continue for three (3) years.
  - Variable trust income: use an average over the length of time per the documentation type selected.
  - Fixed trust income: use the fixed payment as documented.
  - If the borrower creates the trust as trustee, the assets within the trust must be verified with third-party documentation (e.g., bank statements). Income will be calculated using asset utilization methodology.
  - Unless this income is received monthly, documentation of current receipt is not required if the income is on the borrower's most recent tax return.

5.3.18 Unemployment Benefit Income

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

5.3.19 VA Benefits

- Document the borrower's receipt of VA benefits with a letter or distribution form from the VA, along with one month's proof of receipt.
- Verify that the income can be expected to continue for a minimum of three (3) years from the date of the Note.
- Education benefits are not acceptable income because they are offset by education expenses.
- Verification is not required for VA retirement or long-term disability benefits.

5.3.20 Rental Income

For rental income qualification requirements under Full Doc, follow Fannie Mae (FNMA) guidelines. For rental income documentation requirements under Alternative Documentation programs, refer to Section 6.2 of these guidelines.

5.4 IRS Form 4506-C

- Required for Full Doc loans only.
- Must be executed when tax returns are used to qualify. Transcripts must be obtained if using tax returns.
- If the transcript request returns a code 10, or if the borrower is a victim of tax identification theft, provide:
  - A copy of the IRS rejection (code "Unable to Process" or "Limitation").
  - Proof of identification theft (IRS Form 14039 or IRS notification).
  - A Record of Account from the IRS showing AGI and taxable income matching the borrower's Form 1040.

5.5 Borrower ATR Certification

For loans subject to Regulation Z Ability-to-Repay requirements, a borrower certification is required attesting that:

- The borrower(s) have fully disclosed all financial obligations.
- The borrower(s) have reviewed and understand the loan terms.
- The borrower(s) have the ability to repay the loan.

5.6 Residual Income

- All loans must meet residual income requirements. Residual income equals gross monthly qualifying income less total monthly debt obligations.
- Minimum residual income required: $1,500.
- This calculation is required on all loans, except those under business purpose lending.

5.7 Employment and Income Verification

- A minimum of two (2) years of employment history — for both wage/salary and self-employed borrowers — must be documented.
- Any gaps in employment spanning two (2) or more months must be explained.
- Salary/Wage Earner: income derived from employment at a business. Compensation may be based on a salary, hourly wage, bonus, commission, or overtime.
- Any borrower with a 25% or greater ownership interest in a business or entity, or who is paid via IRS Form 1099, is considered self-employed.

Common business structures include:

  - Sole Proprietorship
  - Limited Liability Company (LLC)
  - Partnerships
  - S-Corporation
  - Corporation

5.8 Income Earning Trends

- When 24-months of income are analyzed for qualification, year over year income amounts must be compared using the borrower's W-2 forms, signed federal income tax returns, or bank statements.
- The earnings trends are addressed as follows:
  - **Stable or increasing:** Defined as annual income that is equal to, greater than, or less than 20% below the prior year's income. The income amounts will be averaged.
  - **Declining but stable:** If the 24-month earnings trend shows a decline in borrower income of 20% or more on a year over year basis, but the most recent 12-month earning has stabilized and there is no reason to believe the borrower's employment will change, the most recent 12-month average of income will be used.

5.9 Employment Status Verification

For employment status verification requirements (i.e. VVOE) applicable to Full Doc loans (or Alt Doc loans where a co-borrower is utilizing Full Documentation to qualify – e.g. wage earning co-borrower), refer to Fannie Mae (FNMA) guidelines, Chapter B3-3.1-04.

6 ALTERNATIVE INCOME DOCUMENTATION

Alternative income documentation may be used to determine qualifying income. Income documentation types may be used independently or in combination with other income sources. In cases where multiple income documentation types are utilized (e.g. Full Doc or Bank Statement in conjunction with Asset Utilization), the loan must always be qualified and priced based on the most restrictive Doc Type.

6.1 Bank Statements

Personal or business bank statements may be used to document self-employment income.

6.1.1 Business Bank Statements

- 12 or 24 consecutive months of complete business bank statements from the same account are required. Co-mingling of multiple accounts to reach the 12- or 24-month period is not permitted.
- The most recent statement must be dated within 60 days of the application date.
- The borrower must have been self-employed in the same business for at least one (1) year as evidenced by a CPA Letter, Business License or other reasonable evidence of business activity. Further, the borrower must have been in the same line of business for a minimum of two (2) years.
- The borrower must own at least 25% of the business. If there are multiple owners, income used will be based on the borrower's ownership percentage.
- Nonprofit entities are not eligible. Funds in an IOLTA (Trust) account are an ineligible source.
- Tax returns and IRS Form 4506-C are not required for the bank statement program.
- Verification that the borrower's business is in existence is required within 60 days of closing (as measured by the date the Note is signed). Verification must come from a third party, such as a CPA/tax preparer, regulatory agency, applicable licensing bureau or an internet verification of the business phone and address.

Qualifying income is determined using one of the following:

- Standard fixed expense ratio of 50%; or
- A fixed expense ratio provided by a CPA, IRS Enrolled Agent (EA), CTEC registered tax preparer, PTIN holder, or Tax Attorney, with a minimum expense factor of 10%.
- If the underwriter determines the industry expense ratio is materially above 50%, additional documentation may be required.
- Ratios below 50% require a third-party Business Expense Letter or P&L Statement.

6.1.2 Personal Bank Statements

- 12 or 24 months of complete personal bank statements (multiple accounts may be used, each covering 12 or 24 months). The most recent statement must be dated within 60 days of the application date.
- The business used to source income must be in existence for a minimum of one (1) year, evidenced by a CPA Letter, Business License, or other reasonable documentation.
- Transaction histories are not acceptable in lieu of full bank statements.
- Statements reflecting other individuals — except a non-borrowing spouse who is not an applicant — are not eligible.
- When spousal joint accounts are used, the borrower must own 100% of the business. All income or deposits from the non-borrowing spouse must be removed, and all parties must attest in writing to the income belonging to the applicant.
- Verification that the borrower's business is in existence is required within 60 days of closing (as measured by the date the Note is signed). Verification must come from a third party, such as a CPA/tax preparer, regulatory agency, applicable licensing bureau or an internet verification of the business phone and address.

Additional requirements for personal bank statements:

- Two (2) months of the most recent business bank statements are required.
- If no business account exists, personal statements alone are acceptable with a 10% expense factor.
- 100% of personal bank account deposits may be used if 2 months of business bank statements are provided.
- Transfers will be excluded unless they originate from the documented business account.

6.1.3 Non-Sufficient Funds (NSF) and Overdraft Protection

- NSF events or negative balances reflected on bank statements must be reviewed. One (1) NSF occurrence is defined as one or more returned checks on the same day.
- If LTV is 80% or above: maximum of 12 NSF occurrences in the most recent 12 months, with no more than 3 in the most recent 3 months.
- If LTV is below 80%: no NSF restrictions.
- Exception requests for tolerance deviations require a Letter of Explanation from the borrower and additional compensating factors documented by the underwriter.
- Overdraft protection fees linked to a savings account or line of credit are treated as NSF events unless specific conditions regarding linked account balances or line usage are satisfied.

6.2 Rental Income

Rental income may be used to supplement or serve as a standalone qualifying income source on 12/24-Month Bank Statement, P&L Only, 1099, Asset Depletion, and WVOE programs.

General Rental Income Requirements:

- 100% of verified monthly rental income may be used.
- Market rent from Form 1007/1025 for the subject property may be used to qualify when the transaction is a purchase.
- For investment properties not associated with the borrower's business: provide an active current lease and proof of rent payments received for the most recent 2 months.
- For newly executed leases with new tenants: provide proof of receipt of both the security deposit and first month's rent.

Short-Term Rental Income (e.g., Airbnb, VRBO):

- Gross monthly rents are determined using a 12-month look-back period.
- Acceptable documentation: 12 monthly statements from the online platform, or an annual statement from the online platform.
- A screenshot of the active online listing confirming the property is currently marketed as a short-term rental is required.

6.3 P&L Statement Only

Available to self-employed borrowers with a minimum of 25% ownership of the business. The Profit & Loss Statement must be prepared by a qualified professional (CPA, IRS Enrolled Agent, CTEC registered tax preparer, PTIN holder, or Tax Attorney).

- Borrower must have been self-employed in the same business for at least one (1) year, with a minimum of two (2) years in the same line of business.
- Must cover the most recent 12 or 24 consecutive months. The end date may not be more than 60 days prior to the loan application date, and the P&L must not be older than 120 days at closing.
- The preparer must sign and date the P&L, attest to its accuracy, attest to having filed or reviewed the borrower's most recent tax returns for the business and/or reviewed business financials or working papers for the business, confirm a minimum of one (1) year of business existence, and indicate the borrower's ownership percentage.
- The qualified professional that prepares the P&L cannot be an employee of the loan originator.
- Qualifying income is calculated as: Net Income from the P&L ÷ Months Covered × Borrower's Ownership Percentage. Depreciation, Depletion, and Amortization may be added back.
- P&Ls from two (2) separate companies or entities are permitted; each must have its own independent statement.
- Verification that the borrower's business is in existence is required within 60 days of closing (as measured by the date the Note is signed). Verification must come from a third party, such as a CPA/tax preparer, regulatory agency, applicable licensing bureau or an internet verification of the business phone and address.

6.4 P&L with Bank Statements

In addition to the requirements in Section 6.3, the following applies:

- A 12- or 24-month P&L from a properly licensed tax preparer is required, along with 2 months of bank statements. Proof of the preparer's current state license is required.
- NSF events and overdrafts are not permitted.
- P&L revenue must be supported by bank statement deposits. Total deposits (net of inconsistent items) must be no more than 25% below the revenue reflected on the P&L. Additional bank statements may be added to the analysis until the 25% tolerance is met.

6.5 IRS Form 1099

Eligible for borrowers with a minimum two (2) year history of receiving 1099 income, or borrowers who recently converted from W-2 to 1099 with at least one (1) year of 1099 income in the same line of work.

- Permitted for individuals earning 100% commission income or independent contractors.
- One (1) or two (2) years of 1099s or 1099 transcripts are permitted.
- A 90% Net Margin (10% expense factor) is applied.
- Qualifying income is the 12- or 24-month average of total 1099 income, less the applicable expense factor.
- The most recent two (2) months of bank statements must be provided to confirm gross deposits are consistent with the 1099 amounts. Alternatively, a Written Verification of Employment (WVOE) with YTD pay may be obtained from the contract employer to validate year-to-date pay.
- Year-to-date earnings must be within 10% of, or greater than, the prior year's earnings.

> *Note: Supplemental W-2 or Social Security income may be included, provided it is not the dominant income type and does not conflict with the primary income calculation.*

6.6 Written Verification of Employment (WVOE)

- A two (2) year employment history with the same employer is required.
- Employment information must be completed by Human Resources, Payroll, or an officer of the company. Borrowers employed by family members are not eligible.
- FNMA Form 1005 is required.
- Primary Residence only.
- Paystubs, tax returns, IRS Form 4506-C, and W-2s are not required.
- First-Time Homebuyers are eligible. Refer to the matrix for applicable LTV restrictions.

- Bonus, commission, and overtime are permitted, provided the majority of income is derived from base pay. Declining variable income components are not eligible.
- No other active employment income may be used. Passive income (e.g., rental income) may be included.
- A Verbal Verification of Employment (VVOE) is required within 3 days of closing (as measured by the date the Note is signed). Refer to Section 5.9 of this guide for documentation requirements.

6.7 ATR-in-Full (AiF)

When a borrower holds sufficient liquid assets to pay off the loan in full (CAKE's "ATR-in-Full" or "AiF" program), those assets are considered to satisfy the DTI and Residual Income requirements. In such cases, the Maximum DTI and Residual Income sections do not apply. The borrower must provide the two (2) most recent months of asset statements. The underwriter should consider the minimum account balance relative to the amount needed for qualification and whether the account is being depleted.

Assets under this section must generally be liquid and personally held (not held in a business account). An exception applies when the transaction is a Delayed Financing: in that case, funds being recouped through the transaction may be used for qualification under this section, provided they were sourced and seasoned for at least 90 days prior to the initial purchase of the subject property.

> CAKE defines "Delayed Financing" as the purchase of a property with 100% cash, followed by an application — within 90 days of that purchase — to retrieve a portion of the cash used in the purchase.

6.8 Asset Utilization

Asset Utilization may serve as the sole qualifying income source or supplement other income types. When used as a supplement, minimum asset requirements under the qualification method are waived.

6.8.1 Eligible Assets for Utilization

Monthly qualifying income is calculated as: Net Qualified Assets ÷ 60 Months.

The following assets are considered Qualified Assets:

- 100% of checking, savings, money market accounts, and Certificates of Deposit (CDs).
- 70% of the remaining value of publicly traded stocks, bonds, and mutual funds.
- 70% of retirement assets if the borrower is age 59½ or older; 50% if under age 59½. No terms of withdrawal are required.
- 100% of cash surrender value of life insurance, net of any loans.
- Personal funds in the borrower's name only. Business funds and joint accounts with individuals not on the loan are not eligible.
- Assets held in a trust may be utilized.
- Cryptocurrency (Bitcoin and Ethereum only) — subject to: a 50% haircut on current market value; income calculation as 50% of Crypto Value ÷ 84 Months; must be held in a reputable exchange (e.g., Coinbase, Binance US, Gemini, Kraken, Robinhood); personal wallets and cold storage devices are NOT eligible; current valuation must be documented within 30 days of the Note date.
- Gift funds are permitted, except for transactions with LTV/CLTV above 80%.

All assets must be verified with the three (3) most recent monthly account statements or a quarterly statement. Assets must be seasoned a minimum of 30 days.

6.8.2 Ineligible Assets for Utilization

- Equity in real estate.
- Privately traded or restricted/non-vested stocks.
- Any asset that produces income already included in the income calculation.
- Assets held in the name of a business.

6.9 Departing Residence

- If the borrower's current primary residence is pending sale but will not close before the subject transaction, both the current PITIA and proposed PITIA must be used in qualification.
- The current PITIA may be excluded if the credit file is documented with an executed sales contract for the current residence and confirmation that all financing contingencies have been cleared.
- If the borrower plans to convert the departing residence to a rental property, both PITIAs must be used. 100% of verified monthly rental income may be used, supported by a copy of the executed rental agreement and proof of receipt of the security deposit and first month's rent.
    - May use market rent from 1007/1025 if no lease is in place.

7 DEBTS AND LIABILITIES

7.1 Debts Included in DTI

- All installment loans must be included in the DTI ratio. Exceptions: payments with 10 or fewer months remaining, debts paid off at or before closing (with supporting documentation), and authorized user accounts.
- Revolving debt is included using the minimum required payment per the credit report or current account statement.
- Lease obligations must be included in the DTI regardless of remaining term.
- Child support, alimony, and maintenance obligations must be current at application and included in the DTI (with supporting court documentation). These may be excluded if fewer than 10 months of payments remain, with proof of termination date.
- Co-signed debts (car loans, student loans, mortgages, etc.) are included as contingent liabilities.
- Debts paid by another party for the prior six (6) months may be excluded with documentation of consistent third-party payments (canceled checks or bank statements).

7.2 Maximum DTI

Maximum DTI is 50%, or as permitted by the program matrix. DTI = Total Monthly Debt ÷ Total Monthly Gross Income.

7.3 Revolving Debt

- The minimum required payment per the credit report or current account statement is used.
- If no payment is listed, the greater of $10 or 5% of the current balance must be included in the DTI.
- Revolving accounts may be paid off at or before closing to exclude the payment from the DTI, with supporting documentation.

7.4 Installment Debt

- Installment loans with 10 or fewer remaining monthly payments may be excluded from the DTI.
- Installment debt paid in full at or before closing may be excluded with supporting documentation.

7.5 Student Loans

- If a monthly payment is reflected on the credit report, that amount may be used.
- If the credit report shows no payment or $0 for an income-driven plan, the borrower may qualify with a $0 payment (with documentation) or at 1% of the outstanding balance.
- Deferred or forbearance loans: qualify at 0.5% of the outstanding balance or the fully amortizing payment, whichever applies.

7.6 Business Debt

Business debt appearing on a personal credit report must be included in the DTI unless it is six (6) months or older and the borrower provides documentation that the business is making the payments (e.g., six months of canceled business account checks or a CPA letter).

7.7 Collections and Charge-Offs

Collections and charge-offs do not need to be paid off if:

- Collections/charge-offs less than 24 months old with a cumulative balance of $2,000 or less.
- Collections/charge-offs 24 months or older with a maximum of $2,500 per occurrence.
- All medical collections.
- Debts beyond the applicable state statute of limitations (documentation required).
- Student loans in collection for longer than 3 years.

Charge-offs and collections not excluded above must be paid or may remain open, provided the payment (calculated at 5% of balance) is included in the DTI and/or sufficient reserves are held to cover the balance.

7.8 Federal Income Tax Installment Agreements

- When a borrower has entered into or applied for an installment agreement with the IRS to repay delinquent federal income taxes, and there is no indication that a Notice of Federal Tax Lien has been filed against the borrower in the county in which the subject property is located, the following documentation must be obtained:
  - For installment agreements approved by the IRS: 1) A copy of the approved IRS installment agreement with the terms of repayment, including the monthly payment amount and total amount due; and 2) Evidence the borrower is current on the payments associated with the tax installment plan. Acceptable evidence includes the most recent payment reminder from the IRS, reflecting the last payment amount and date and the next payment amount owed and due date.
  - For installment agreements pending approval by the IRS: 1) A copy of the application for the installment agreement with the terms of repayment, including the monthly payment amount and total amount due.
- In both cases, if the borrower is not paying off the amount owed in full, the lender must include the monthly payment amount as part of the borrower's monthly debt obligations (unless 10 or fewer payments remain). If any of the above conditions are not met, the borrower must pay off the outstanding balance due under the installment agreement with the IRS.

7.9 Lease Payments

- Lease payments must be considered as recurring monthly debt obligations and included in the DTI ratio calculation regardless of the number of months remaining on the lease.
- Auto lease payments paid by a third party may be excluded from the DTI. Must provide 12 months of canceled checks or bank statements.

7.10 Deferred Installment Debt

- Deferred installment debts must be included as part of the borrower’s recurring monthly debt obligations.
- For deferred installment debts other than student loans, if the borrower’s credit report does not indicate the monthly amount that will be payable at the end of the deferment period, documentation must be provided of the borrower’s payment letters or forbearance agreements so that a monthly payment amount can be determined and used in calculating the borrower’s total monthly obligations.

7.11 Open 30-Day Charge Accounts

- For open 30-day charge accounts that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment identical to the account balance, borrower funds must be verified to cover the account balance. The verified funds must be in addition to any funds required for closing costs and reserves.

7.12 Solar Panels

- For solar panel guidance, refer to Fannie Mae (FNMA) guidelines.
- PACE loans or similar instruments with payments included in property taxes or carrying lien priority are not eligible.

7.13 Timeshares

- Timeshare obligations will be treated as a consumer installment loan.

7.14 Past Due Accounts

- All past due accounts must be brought current prior to loan closing.

7.15 Subordinate Financing

Subordinate financing is allowed provided the following conditions are met:

- The subordinate financing does not have a negative amortization feature.
- Maximum LTV/CLTV cannot exceed the maximum LTV in the Credit Matrix.
- The subordinate financing payment must be included in the DTI calculation.
- If the subordinate financing does not appear on the credit report, a Verification of Mortgage (VOM) with canceled checks (12 months) or a credit supplement must be provided.

Required Documentation:

- Copy of the Note.
- Copy of the Subordination Agreement.

7.16 Adjustable Rate and Interest Only Qualifying

- For all ARM loan transactions, the greater of the Note rate or the fully indexed rate is used to determine the qualifying PITIA. The fully indexed rate is calculated by adding the margin to the index.
- Interest-only loans are qualified using the greater of the Note rate or the fully indexed rate, using the fully amortized payment over the fully amortized term of the loan.

8 ASSETS

Acceptable asset documentation is required in each loan file. Borrowers must meet minimum contribution requirements per program guidelines. The documentation requirement for all transactions is a single account statement covering one (1) month and dated within 120 days of the Note date.

8.1 Asset Documentation

The following may be used for down payment, closing costs, and reserves (100% of value unless noted):

- Checking, Savings, or Brokerage accounts — Statements must include: financial institution name, borrower as account holder, account number, statement date, statement period, and available balance in U.S. dollars.
- Assets held in foreign accounts must be translated to English and converted to U.S. Dollar equivalency using xe.com or the Wall Street Journal conversion table.
- Assets held in a Trust — Obtain written documentation of trust account value and conditions of access from the trust manager or trustee.
- Certificates of Deposit.
- U.S. Savings Bonds — 100% if fully matured; otherwise 80%.
- Marketable Securities — 100% of vested account value (margin excluded). Defined as publicly traded stocks, bonds, or mutual funds.
- Restricted Stock Units (RSU) — Refer to the RSU guide.
- Annuities (70%) — Only amounts accessible within a 30-day window.
- Pension Plans (70%) — Only amounts accessible within a 30-day window. Statements must reflect a transaction history dated within 30 days of the Note date.
- IRA, Keogh, and 401(k) Retirement Accounts — 70% of vested balance.
- Business accounts — Borrower must own the contributing business. Documentation must include the most recent bank statement and a Letter of Explanation from the majority of business ownership describing the potential business impact. As an alternative, a CPA/tax preparer can attest to the potential business impact provided the also attest to having filed the most recent tax returns for the business and/or reviewed business financials or working papers.
- Cash Value of Life Insurance.
- Spousal accounts — May be used for down payment and closing costs only; not eligible for reserves.

- Cryptocurrency (Bitcoin and Ethereum only) — Must be held in a reputable exchange. For down payment/closing costs: must be liquidated and deposited into a U.S. bank account. For reserves: 60% of current valuation (documented within 30 days of Note date) is eligible.

8.2 Restricted Stock Units (RSU)

- RSUs may be used as qualifying income when: income has been consistently received for the prior two (2) years and is expected to continue for three (3) years; income is calculated using a two-year average; if declining, proof of stability and the most conservative average are required.
- The borrower must be employed by the company that issued the RSUs, and the employer must be a publicly traded entity.
- Non-vested restricted stock is not an acceptable source of income or reserves.
- Vested RSUs used for down payment, closing costs, or reserves may not also be counted as qualifying income.

8.3 Asset Verification Requirements

- If LTV/CLTV is 65% or below, asset verification is not required.
- For LTV/CLTV above 65%, one (1) month bank statement is required. Alternatively, a Verification of Deposit (VOD) from the financial institution (FNMA Form 1006 or equivalent) can be obtained. A 2-month average is not required.
- Documentation of large deposit sources is not required.

8.4 Gift Funds

- Gifts may be provided by any third party and used to pay off debt.
- 100% gift is permitted for all occupancy types.
- Gifts may be applied toward down payment, closing costs, reserves, and debt payoff.
- Permitted on Purchase, Rate-and-Term, and Cash-Out transactions.
- Gift of Equity is permitted for all occupancy types but may not be applied to reserves.
- For Investment Properties: the borrower must demonstrate 10% of their own funds for down payment; however, those funds do not need to be contributed to the transaction.

8.5 Eligible Donors

- Gifts may be provided by any third party.
- For gifts from non-U.S. citizens, the donor must be screened against the OFAC Specially Designated Nationals (SDN) list.
- The donor may not be affiliated with the builder, developer, real estate agent, or any other interested party to the transaction — except that a real estate agent who has disclosed a familial relationship with the buyer may act as a donor, provided commission proceeds are not used.

8.6 Gift Fund Documentation

Gifts must be evidenced by a signed gift letter that specifies the dollar amount, includes the donor's statement that no repayment is expected, and includes the donor's name, address, phone number, and relationship to the borrower.

Acceptable documentation of funds transfer:

- Copy of donor's check or cashier's check with donor's name as the remitter and the borrower's deposit slip.
- 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. When gift funds have been deposited into the borrower’s account, a gift letter and documentation evidencing the deposit are sufficient. Separate documentation of the donor’s withdrawal or electronic transfer from the donor’s account is not required.
- Copy of donor's check made payable to the closing agent.
- Settlement statement evidencing receipt of the donor's funds.

8.7 Reserves

- Refer to the matrix for minimum reserve requirements.
- Net proceeds from a cash-out transaction may be used to satisfy reserve requirements.
- Reserve requirements are waived for Rate-and-Term Refinance transactions that produce a principal and interest payment savings of 10% or more, superseding matrix requirements. Not eligible when DTI exceeds 50%.
- 1031 Exchange proceeds may not be used to meet reserve requirements.
- For Interest Only loans, reserves are based on the Interest Only payment amount.
- For ARMs, reserves are based on the initial PITIA — not the qualifying payment.
- Gift funds may be used to meet reserve requirements.
- Cake does not require "stacking" of reserves in multi-pack situations (i.e. one borrower is simultaneously closing multiple loans on different properties). Cumulative down payment/cash to close for all transactions must be netted out of the assets total whereby the remaining total is applied to each loan on an individual basis.

8.8 Interested Party Contributions (Seller Concessions)

Maximum Seller Concessions:

- Owner-Occupied: LTV at or below 80% — up to 9%; LTV above 80% — up to 6%.
- Non-Owner-Occupied: all LTVs — up to 6%.
- All contributions must be disclosed in the sales contract, appraisal, Loan Estimate, and Closing Disclosure.
- Contributions may only be applied to closing costs and prepaid expenses. They may never be applied to the down payment or used to satisfy reserve requirements.
- Contributions in excess of stated limits are permitted; however, the excess must be deducted from the purchase price for the LTV/CLTV calculation.

9 COLLATERAL

9.1 Appraisals

A full appraisal includes a complete inspection of the home (interior and exterior). The required appraisal form depends on property type:

- Uniform Residential Appraisal Report — FNMA/FHLMC Forms 1004/70
- Small Residential Income Property Report — FNMA/FHLMC Forms 1025/72
- Individual Condominium Unit Appraisal Report — FNMA/FHLMC Forms 1073/465
- Appraisal Update and/or Completion Report — FNMA/FHLMC Forms 1004D/442
- Single Family Comparable Rent Schedule — FNMA/FHLMC Forms 1007/1000
- Manufactured Home Appraisal Report — FNMA/FHLMC Forms 1004C/70B

9.1.1 Appraiser Independence

- Appraisers must have no direct or indirect financial or personal interest in the subject property or with any involved party.
- All appraisals must be ordered through an Appraisal Management Company (AMC).
- Appraisals from appraisers affiliated with the lender, borrower, or any party to the transaction will not be accepted.

9.1.2 Second Appraisals

Loan amounts of $2,000,000 or greater require a second appraisal. The lower of the two values must be used for LTV calculations. When two appraisals are obtained, the same appraiser cannot complete both appraisals.

9.1.3 Accessory Dwelling Units (ADU)

- ADU classification is determined by the county and appraiser — not by the physical unit count alone.
- Multiple ADUs are allowed and are not restricted to a 1-unit property. However, from a qualification and pricing standpoint, CAKE evaluates the total number of units + the total number of ADUs to determine how a property is classified. For example, in order to qualify as a 1-4 unit property, an SFR can have up to 3 ADUs. A 2-unit can have up to 2 ADUs. A 3-unit can have only one ADU, and a 4-unit can have no ADUs.

- In any scenario where a property has a combination of units and ADUs that exceeds 4 units/ADUs (e.g. a 2-unit with 3 ADUs), the property is considered to be a 5+ unit – which is ineligible under CAKE Non-QM.
- ADUs must be constructed in a workmanlike manner and appraised as zoning-compliant. A permit is not required.
- The appraisal must demonstrate that improvements are typical for the market, supported by at least one comparable property with an ADU.

Rental Income — Purchase:

- Owner-Occupied / 2nd Home: Use the lower of the market rent on FNMA Form 1007/1025 or actual rent.
- Non-Owner-Occupied: Use the lower of the market rent on FNMA Form 1007/1025 or actual rent.

Rental Income — Refinance:

- The market rent for the accessory unit must be documented on FNMA Form 1007/1025. The file must include a copy of the current lease agreement with two (2) months proof of current receipt. The qualifying rent figure is the higher of the Form 1007/1025 market rent or the current lease, provided the difference does not exceed 20%.

9.1.4 Appraisal Age

- Appraisals must be dated no more than 120 days prior to the Note date.
- Appraisals that will exceed 120 days at the Note date require a recertification of value per FNMA Form 1004D or FHLMC Form 442, including an exterior inspection and current market data review.
- If the recertification indicates a decline in value, a new appraisal must be obtained.

9.1.5 Appraisal Review Requirements

- An appraisal review product is required on every loan file unless a second appraisal is obtained.
- Eligible review products include: Collateral Underwriter® (CU®) with a score of 2.5 or less, or Loan Collateral Advisor® (LCA) with a score of 2.5 or less. The file must include the Submission Summary Report (SSR).
- If the score exceeds 2.5 or is indeterminate, the file must include an AVM, enhanced desk review (CDA from Clear Capital), field review, or second appraisal — in that order.
- If the AVM or enhanced desk review reflects a value more than 10% below the appraised value, a field review or second appraisal is required.
- When a field review is obtained in addition to the original appraisal and the field review reports a different value than the original appraisal, the lesser of the two values must be used to calculate LTV.
- AVM must include an FSD score within 90%.
- CAKE reserves the right to require an additional level of review at its sole discretion.

9.1.6 Transferred Appraisals

- Appraisal transfers are permitted when the appraisal was completed prior to closing.
- The appraisal must be less than 60 days old at time of transfer (and no more than 120 days at closing), ordered through an AMC, and AIR-compliant. However, if the transferred appraisal is aged 60 days or more, it is still acceptable with a supportive AVM or enhanced desk review (see Section 8.1.3 for requirements).
- A transfer letter on company letterhead from the original lender is required.
- The borrower must receive the appraisal within three (3) business days of report completion. CAKE may deliver directly if the prior lender's confirmation cannot be obtained, no later than three (3) business days before consummation.
- 1004D Recertification of Value is NOT permitted on transferred appraisals.

9.1.7 Properties Located in a Condominium Project

- For properties located in a condominium project with 20 or more units, the appraisal must contain at least one comparable sale from the subject's project. If no suitable comparable exists, the appraiser must provide commentary explaining why and whether or not there is any impact to marketability as a result.

9.1.8 Appraiser Assignment Limitation

- The AMC is responsible for monitoring appraisal assignments to ensure that no individual appraiser is assigned more than three (3) appraisal assignments for the same borrower. Once an appraiser has completed three (3) assignments for a borrower, the AMC will assign any additional appraisal requests for that borrower to a different qualified appraiser, unless otherwise required by applicable law or investor requirements.

9.2 Escrow Holdbacks

Escrow holdbacks are not permitted. Any repair or maintenance required by the appraiser must be completed prior to loan funding.

9.3 Solar Panels

For solar panel guidance, refer to Fannie Mae (FNMA) guidelines. PACE loans or similar instruments with payments included in property taxes or carrying lien priority are not eligible.

9.4 Eligible Property Types

- Single-Family Detached
- Single-Family Attached
- 2–4 Unit Residential Properties
- Condominium
- Non-Warrantable Condominiums
- Condotels
- Manufactured Homes
- Mixed-Use Properties (in accordance with Fannie Mae guidelines)
- Modular Homes
- Properties up to 20 acres
- Leaseholds (in areas where leaseholds are common)
- Properties containing an Accessory Dwelling Unit (ADU) — refer to Section 9.1.3
- Each property (or each unit for 2+ unit properties) must have a functioning kitchen that is common to the property type and location.
- There are no minimum GLA requirements for any of the eligible property types, however, GLA of the subject property must be considered common, must be supported by comparables in the appraisal, and present no market resistance. Any property with a GLA less than 400 square feet requires management review.

9.5 Ineligible Property Types

- Assisted Living, Elderly Care, Recovery and Treatment facilities
- Group Homes
- Agricultural Properties
- Barndominiums
- Boarding Houses
- Properties with a C5 or C6 condition rating
- Units in a Cooperative (Co-op) development
- Properties with fractional ownership or timeshares
- Properties not accessible by roads meeting local standards
- Properties not suitable for year-round occupancy
- Properties with nonresidential income-producing structures on-site (e.g., billboards, cell towers, commercial workshops)
- Log Homes (may be considered on a case-by-case basis if common to the area)
- Houseboats
- Geodesic Domes
- Commercial Properties
- Properties Under Construction

- Rural properties exceeding 20 acres
- Hawaii Lava Zones 1 and 2

9.6 Leasehold Properties

- Documentation must be provided and the leasehold must meet all FNMA eligibility requirements.
- The lease term must extend at least five (5) years beyond the loan's maturity date, unless fee simple title vests in the borrower at an earlier date.

9.7 Texas Home Equity Loans — Section 50(a)(6)

- A Texas Section 50(a)(6) mortgage is a home equity (or cash-out) loan originated under the provisions of Article XVI, Section 50(a)(6) of the Texas Constitution, which permits a borrower to take equity out of a homestead property under certain conditions.
- All Texas Home Equity transactions must comply with the requirements listed in the Texas Constitution.
- Loans in the state of Texas which are not part of Texas Section 50(a)(6) transactions are required to have a Non-Homestead Affidavit signed at closing.
- The borrower must have ownership of a primary residence in Texas at the time of application.

9.8 Declining Markets

Properties in declining markets are subject to LTV restrictions. Refer to the matrix for applicable LTV/CLTV overlays.

9.9 Flip Transactions

A transaction is considered a "flip" when the subject property is being resold within 180 days of the seller's acquisition and the sales price has increased more than 10%. The 180-day period is measured from the seller's acquisition date to the execution date of the purchase agreement.

Flip transactions are subject to the following requirements:

- All transactions must be arm's length, with no identity of interest between the buyer and the seller.
- No pattern of previous flipping activity may exist within the last 6 months.
- The property must have been marketed openly and fairly through an MLS, auction, FSBO offering, or developer marketing.
- If the purchase price exceeds the appraised value by more than 5%, a signed borrower acknowledgement letter is required.
- Flip transactions must comply with HPML appraisal rules under Regulation Z.
- A second full appraisal is required when: the sales price increased more than 10% and the seller acquired the property within the prior 90 days, or the sales price increased more than 20% and the seller acquired the property within the prior 91 to 180 days.

9.10 Disaster Areas

These guidelines apply to properties in FEMA-declared disaster areas eligible for individual assistance as identified at www.fema.gov/disasters, as well as properties near known adverse events such as earthquakes, floods, tornadoes, or wildfires. The requirements below are applicable to loans in process that have not yet funded.

Appraisals completed prior to a disaster event:

- A post-disaster exterior inspection report with new photographs and a street view is required. The appraiser must confirm if the property is free of damage, is in the same condition as the prior inspection, and that value and marketability are unchanged.
- Any damage must be repaired and re-inspected prior to funding.

Appraisals completed after a disaster event:

- The appraiser must comment on the adverse event and any effect on marketability or value.
- Damage that impacts the safety or habitability of the property must be repaired prior to funding.

9.11 Condominium Projects

The UW file must include attestation or documentation confirming whether the project was determined to be warrantable or non-warrantable. If an approved Fannie Mae Condo Project Manager (CPM) report is provided, an HOA questionnaire is not required.

9.11.1 Warrantable Condominium Projects

FNMA-eligible warrantable projects are permitted. Site condominiums meeting the FNMA definition are eligible for single-family LTV/CLTV. The condo review is waived. Unless a waiver of project review is otherwise eligible per FNMA guidelines, a Full Review is required (unless an acceptable CPM report is provided as noted in Section 9.11 above).

9.11.2 Non-Warrantable Condominium Projects

Non-warrantable condominiums are eligible subject to the following criteria. Refer to the Credit Matrix for LTV restrictions.

CHARACTERISTIC	EXCEPTION CONSIDERATION
Commercial Space	The subject unit must be 100% residential. Commercial space within the building project must be less than 50% of the total. Any commercial space must be typical for the marketplace with no negative impact on marketability. The commercial percentage is determined by the appraiser, and a commercial entity may not control the HOA.
Completion Status	The project, or the subject's legal phase (along with other phases), must be complete. All common elements must be 100% completed, and at least 50% of units must be sold or under a bona fide contract. If LTV is below 80% and the credit score exceeds 680, a minimum presale of 30% is acceptable.
Condotels	Units must be individually owned with hotel amenities such as on-site registration, housekeeping, and hospitality services. Daily, weekly, or monthly rentals are permitted. At least 50% of units must be sold or under contract, all common elements must be 100% complete, and investor concentration may reach 100%. Minimum unit size is 500 sq. ft. A fully functioning kitchen (refrigerator and cooktop/stove/oven) is required. Studios are permitted.
Delinquent HOA Dues	No more than 35% of total units in the project may be 60 or more days past due on HOA assessments.
HOA Control	The developer may retain control of the HOA provided the Master Agreement establishes a mechanism for homeowners to assume control upon reaching a predetermined percentage of unit sales or within a defined time period.
HOA Reserves	The annual budget must allocate a minimum of 5% to replacement reserves. If the allocation is less than 3%, the file must include a completed HOA questionnaire, a copy of the annual budget, and a reserve study completed within the prior 5 years by a CPA, General Contractor, or Property Manager with at least 3 years of relevant experience.
Litigation	Pending litigation may be considered on a case-by-case basis. Litigation involving structural issues, health and safety concerns, or items likely to impact the marketability of the project will not be accepted.
Mandatory Membership Dues	Golf course projects where mandatory membership dues are paid to a third party organization are acceptable.
New Projects	The project or the subject's legal phase (along with other phases) must be complete. All common areas must be 100% complete, and a minimum of 50% of units must be sold or under contract. If LTV is below 80% and the credit score exceeds 680, a minimum presale of 30% is acceptable.
Single Entity Ownership	Single entity ownership within the project may not exceed 50%.
Insurance Deductible	For non-warrantable condo projects, a master insurance deductible exceeding 10% of the face amount of the policy may be acceptable, provided the project demonstrates strong HOA financials — including adequate reserves and no significant delinquency. Supporting documentation is required and subject to underwriter review and approval.

9.11.3 Condominium Insurance Requirements

All projects must meet FNMA insurance requirements for property, liability, and fidelity coverage. The HOI Policy must be effective as of the funding date. Acceptable evidence of insurance includes a Policy, Certificate of Insurance, or Insurance Binder.

Evidence of Insurance must reflect:

- Borrower name(s) as they appear on the Note/Security Instrument.
- Property address matching the Note/Security Instrument.
- For primary residence loans: mailing address matching the property address.
- Policy Number, Loan Number, insurance company name, and agent information.

Master Insurance:

- Required for common elements and residential structures. Claims must be settled on a replacement cost basis, with the exception of roofs. Roofs must be insured, but do not have to be insured on a replacement cost basis. Actual cash value policies are otherwise not acceptable.
- Master liability must be at least $1,000,000 per occurrence.

Fidelity or Employee Dishonesty Insurance:

- Required for projects with more than 20 units; coverage must equal at least three (3) months of HOA assessments on all units.

HO-6 Insurance:

- Borrowers must carry HO-6 coverage for interior unit components (flooring, wall coverings, cabinets, fixtures, built-ins, and improvements). Required when the master policy does not provide interior coverage.

Flood Insurance:

- An NFIP Residential Condominium Building Association Policy (RCBAP) is required. Building coverage must equal the lesser of 100% of insurable value or the total number of units times $250,000. Flood insurance escrows may never be waived.

9.12 Hazard Insurance

- Insurance must cover fire and hazards under the standard extended coverage endorsement.
- A declaration page or binder is required prior to closing for all loans.
- On refinance transactions, if the coverage expiration date falls within 60 days of closing, evidence of continuing coverage is required.
- A loss payable endorsement is required on all transactions.
- Claims must be settled on a replacement cost basis. Actual cash value policies are not acceptable.
- Extended coverage must include, at minimum: wind, civil commotion (including riots), smoke, hail, and damage from aircraft, vehicles, or explosions.
- Coverage should equal the lesser of: the replacement cost estimate (from the insurer or a third-party source such as CoreLogic), the estimated replacement cost from a recent appraisal, or the unpaid principal balance of the mortgage(s).
- Maximum deductible: 5% of the face amount of the policy.
- Policies excluding windstorm, hurricane, hail, or other standard extended coverage perils are not acceptable.

10 TITLE INSURANCE

10.1 Title Insurance Requirements

- Coverage must be provided by the American Land Title Association (ALTA) or an equivalent association. Either a Standard or Short Form Policy is acceptable.
- The effective date of the title commitment must be dated within 120 days of the Note date. For Texas loans, the commitment must be dated within 90 days. If the date exceeds the applicable limit, the title company must provide gap coverage or an updated commitment.
- Title insurance is required in an amount equal to the loan amount.
- All title vesting must be reviewed to confirm it matches the application.
- All title holders must authorize the mortgage transaction. Non-applicant title holders are required to sign applicable closing documents.
- For properties held in trust, the trust agreement must be reviewed and approved by the title company and underwriters.
- For purchase loans, the vesting must reflect the seller's name(s) and match the purchase contract. A deed transferring title is required at closing.
- The legal description must appear as it does on the appraisal and application.
- The title commitment must be countersigned by an authorized representative of the title company.
- All outstanding mortgages on the subject property must be identified. Any additional mortgages must be paid off and released at or before closing, or meet subordination requirements if remaining open.
- Liens and Judgments — All federal tax liens, mechanics' liens, and other judgments must be paid off at or before closing. Solar liens must be subordinated or paid off. HERO liens must be paid.
- Easements — Rights pertaining to public utilities, mineral rights, beach rights, or riparian rights generally do not affect lien position and may remain as title exceptions.
- Encroachments — May remain as title policy exceptions if the title company insures against loss from enforced removal of the encroaching improvement. Otherwise, the encroachment must be reviewed by the underwriter.
- Surveys — All survey exceptions must be cleared on all loan products.
- Lis Pendens — All lis pendens must be removed prior to approval, or the application will be denied.

11 MISCELLANEOUS REQUIREMENTS

11.1 Age of Document Requirements

The following documents may not be more than 120 days old at closing (as measured by the date the Note is signed):

- Income documents and paystubs.
- Mortgage or rental verification.
- Asset documents and bank statements.
- Credit Report.
- Title Commitment, Preliminary Report, Binder, or O&E.

For appraisal age requirements, refer to Section 10.1.3. Any credit review documents exceeding these timeframes must be updated prior to closing.

11.2 Fraud Report

- All loans must be submitted to an automated fraud and data verification tool (e.g., FraudGuard, DataVerify, etc.).
- All transaction participants must be included in the fraud report: Borrowers/Guarantors, Property Sellers, Brokers, Loan Officers, Appraisers, Real Estate Agents, and Settlement Agents.
- A copy of the findings report and all documentation resolving identified deficiencies or red flags must be included in the loan file.

11.3 OFAC and Watchlist Screening

- Documentation must confirm that borrowers, entities as borrowers, sellers, real estate agents, settlement companies/agents, appraisers, and appraisal companies were screened against applicable watchlists.
- For refinance transactions: borrowers, entities as borrowers, settlement companies/agents, appraisers, and appraisal companies must be included.

11.4 Escrows

Escrow waivers are permitted. Refer to the matrix for program-specific requirements.

Escrow waivers are NOT permitted for:

- Properties located in flood zones.
- HPML loans.

11.5 Remote Online Notarizations (RON)

Remote Online Notarizations (RON) are permitted in accordance with Section A2-4.1-03 of Fannie Mae's Selling Guide. Use of a Power of Attorney is not permitted for RON closings.