Carrington Investor Advantage Program Underwriting Guidelines

DOCUMENT OVERVIEW

Purpose

The following document describes the responsibilities and requirements of the Carrington Mortgage Services, LLC (CMS) Mortgage Lending Division Underwriter (Underwriter) when reviewing and underwriting mortgage loan applications. The purpose of credit and property underwriting is to ensure that each loan meets high quality standards that make the loans acceptable to CMS Mortgage LLC.

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Revision Summary

See the Revision Summary section.

INVESTOR ADVANTAGE PROGRAM

Overview

These guidelines serve to provide direction and consistency in loan, borrower, and property eligibility.

The Investor Advantage Program is designed for investment, non-owner occupied loans that are designated for business purposes only. Proceeds of the loan under the Investor Advantage Program are limited to the purchase of an additional investment property or the improvement and/or maintenance of the subject property or other investment properties. Utilizing proceeds of the loan for personal, family, or household purposes is prohibited.

These guidelines outline requirements specific to the Investor Advantage Program.

Alternative Loan Program Analysis

Loans under the Investor Advantage Program are exempt.

General Program Information

Products

See Carrington Investor Advantage Program Matrix

Loan Amounts and Loan-To-Values

See Carrington Investor Advantage Program Matrix

State Restrictions

See Carrington Investor Advantage Program Matrix

Age of Documentation

Unless otherwise noted, all loan documentation must be dated within 60 days of closing. See also Age of Appraisal.

Loan Age

The period between the note date and the purchaser's funding date cannot exceed 60 days.

Business Purpose Loans

Business Purpose Loans are not subject to the Points and Fees Test, Anti-Steering or Consumer Credit Counseling requirements.

All Refinances

As a best practice, CMS requires that all refinance transactions must have Net Tangible Benefit to Borrower.

Investor Advantage Program (continued)

Investor Advantage Forms

For the Investor Advantage Program, the following forms are required:

- Business Purpose & Occupancy Affidavit (all borrowers are required to sign prior to closing to declare that the property is, or will be, for commercial business or investment purpose only). 2 copies are required:
  - The initial disclosure provided is for informational purpose only and does not need to be signed
  - The disclosure generated with closing documents must be signed AND notarized
- Guaranty (if applicable)
- 1-4 Family Rider/Assignment of Rents (FNMA Form 3170)

Prepayment Penalties, Points and Fees

Total points, fees, and APR must not exceed current state and federal high-cost thresholds.

Prepayment penalties are permitted and may only be charged when permissible by State law. A Business Purpose Affidavit must be executed at closing if a prepayment penalty is charged.

Note: States may impose different definitions of points and fees, rate/APR, or prepayment penalties than apply under HOEPA. States may also use different triggers in each category for determining whether a loan will be a "high-cost mortgage" (or equivalent terms) under state law.

Exceptions

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

Anti-Steering

CMS does not direct or “steer” a consumer to consummate a transaction based on the fact that CMS will receive greater compensation in that transaction than in other transactions CMS offered or could have offered to the consumer, unless the consummated transaction is in the consumer’s interest.

Transactions

Occupancy

An investment property (or non-owner occupied property) is an income-producing property that the borrower does not occupy. The Investor Advantage Program allows for financing on investment properties only.

Purchase

A purchase transaction is one which allows a buyer to acquire a property from a seller. A copy of the fully executed purchase contract and all attachments or addenda is required.

The lesser of the purchase price or appraised value of the subject property is used to calculate the loan-to-value.

GENERAL REFINANCE REQUIREMENTS

Determining Loan-To-Value

The following standards apply to refinance transactions under the Investor Advantage Program:

If the property was acquired > 12 months from application date, the appraised value must be used to determine loan-to-value.

If the property was acquired < 12 months from application date, the lesser of the current appraised value or the previous purchase price plus documented improvements (if any) must be used. The purchase settlement statement and any invoices for materials/labor will be required.

Lease Requirements

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

The following requirements apply to refinance transactions:

- Lease term not to exceed 1 year
- Monthly lease payments must be consistent with market rents

If subject property is not leased, see the Carrington Investor Advantage Program Matrix for LTV restrictions.

Short Term Rentals

Short term rentals of less than one month in term will be qualified as an unleased property. Examples of short term rentals are Air BNB, Vacation Rental By Owner (VRBO), etc.

Short term rental properties may not be modified in a way that affects the residential character of the property. For example, parking lots and reception areas are not acceptable.

Properties Listed for Sale

To be eligible for either a rate/term or a cash-out refinance, the subject property must be taken off the market on or before application date.

For cash-out transactions, if the subject property was listed for sale in the 6 months prior to application date, a 10% LTV reduction from the maximum available for the specific transaction is required.

The lesser of the most recent list price or the current appraised value should be used to determine loan-to-value for both rate/term or cash-out transactions.

Rate/Term Refinance

A rate/term refinance is the refinancing of an existing mortgage for the purpose of changing the interest and/or term of a mortgage without advancing new money on the loan.

The mortgage amount for a rate/term refinance is limited to the sum of the following:

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

General Refinance Requirements (continued)

Rate/Term Refinance, continued

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

If the most recent first mortgage transaction on the property was a cash-out refinance within the last 6 months, the new mortgage is not eligible as a rate/term and must proceed as a cash-out refinance. Note date to note date is used to calculate the 6 months.

On rate/term transactions, the borrower may only receive cash back in an amount that is the lesser of 2% of the new mortgage balance or $2000.

Cash-Out Refinance

A cash-out refinance is a refinance that does not meet the rate/term refinance definition. Cash-out would include a refinance where the borrower receives cash from the transaction or when an open-ended subordinate lien (that does not meet the rate/term seasoning requirements) is refinanced into the new transaction.

A mortgage taken out on a property previously owned free and clear is always considered a cash-out refinance.

The mortgage amount for a cash-out refinance transaction may include any of the following:

- Existing first mortgage payoff
- Closing costs and prepaid items (interest, taxes, insurance) on the new mortgage
- The amount of any subordinate mortgage liens being paid off that do not meet seasoning and draw history requirements as described in Rate/Term Refinance.
- The amount of any non-mortgage related debt paid off through closing. Non-mortgage debt paid with cash-out loan proceeds must comply with the *Business Purpose & Occupancy Affidavit*. The loan file must contain documentation to support that non-mortgage debts were derived from real estate business activities, and are not personal, family, or household debts.
- Additional cash in hand reflected on the settlement statement

General Refinance Requirements (continued)

Cash-Out Refinance, continued

For all cash-out refinance transactions: at least one borrower must have been on title a minimum of six (6) months prior to the new note date and a minimum of 6 months must have elapsed since the most recent mortgage transaction on the subject property (either the original purchase transaction or subsequent refinance). Note date to note date is used to calculate the 6 months.

For cash-out refinance transactions where the property is currently vested in a trust or LLC, the borrowers must have owned the property in the name of the trust or LLC for at least six (6) months prior to closing.

Note: The six (6) months seasoning requirement may include a recent vesting change from the borrower's Trust or LLC to the borrower or from the borrower to the borrower's LLC. Loans may not close vested in the name of a Trust. Properties removed from a Trust or LLC are not required to meet the seasoning requirements if the property moves from the Trust to the owner of the Trust or the LLC to the owner of the LLC. Minimum fifty-percent (50%) ownership of the LLC is required.

There is no waiting period if the borrower was legally awarded the property through divorce, separation, or dissolution of a domestic partnership.

For business purposes only. Proceeds of the loan are limited to the purchase of an additional investment property or the improvement and/or maintenance of the subject property or other investment properties. Utilizing proceeds of the loan for personal, family, or household purposes is prohibited.

Flip Transactions

Flips are not allowed under the Investor Advantage Program. The Seller must be in title for > 180 days.

Non-Arm's Length Transactions

Non-arm's length transactions involve a direct relationship outside of the subject transaction between a borrower and a party to the loan. The appraiser must be informed of the relationship and address any impact on market value.

Examples of non-arm's length transactions include, but are not limited to, the following:

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

General Refinance Requirements (continued)

Non-Arm's Length Transactions, continued

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

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

The following additional requirements apply only to family sales:

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

Employee(s) of Broker/Seller

CMS will permit loans to employees of Brokers/Sellers as long as the employee is not the loan officer or processor on the loan. CMS limits the number of loans originated to employees of Brokers/Sellers to one loan per employee. CMS will not originate any loans to a Broker of Record or any applicant that has ownership interest in the Broker's/Seller's company.

General Refinance Requirements (continued)

Inherited Properties and Property Buyouts	Refinances of inherited properties and properties legally awarded to the borrower (divorce, separation, or dissolution of a domestic partnership) are allowed. If the subject property was acquired < 12 months prior to loan closing, the transaction is considered a cash-out. These transactions are subject to the following: • Written agreement signed by all parties stating the terms of the buyout and property transfer must be obtained • Equity owners must be paid through settlement • Subject property has cleared probate and property is vested in the borrower's name • Current appraised value is used to determine loan-to-value
Permanent Financing for New Construction	The conversion of construction-to-permanent financing involves the granting of a long-term mortgage to a borrower to replace interim construction financing obtained by the borrower to fund the construction of a new residence. The borrower must hold title to the lot, which may have been previously acquired or purchased as part of the transaction. When a refinance transaction is used, the borrower must have held legal title to the lot before he/she applied for the construction financing and must be named as the borrower for the construction loan. A construction-to-permanent transaction may be closed as a purchase, rate/term refinance or cash-out refinance. All construction work must be complete. See New Construction. • For lots owned ≥12 months from application date for the subject transaction, LTV is based on the current appraised value. • For lots owned < 12 months from application date for subject transaction, LTV is based on the lesser of the current appraised value of the property or the total acquisition costs (sum of construction costs and purchase price of lot).

BORROWERS

U.S. Citizens

U.S. Citizens are eligible for financing.

Permanent Resident Aliens

A permanent resident alien is a non-U.S. citizen authorized to live and work in the U.S. on a permanent basis. Permanent resident aliens are eligible for financing.

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

- I-151 – Permanent Resident Card (Green Card) that does not have an expiration date
- I-551 – Permanent Resident Card (Green Card) issued for 10 years that has not expired
- I-551 – Conditional Permanent Resident Card (Green Card) issued for 2 years that has an expiration date, as long as it is accompanied by a copy of USCIS form I-751 requesting removal of the conditions

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

Non-Permanent Resident Aliens

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

Verification of Residency Status

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

- A-1, A-2, A-3
- E-1, E-2, E-3
- G-1 through G-5
- H-1
- L-1
- NATO
- O-1
- R-1
- TN (NAFTA)

Copies of the borrower's passport and unexpired visa must be obtained. Acceptable alternative documentation to verify visa classification is an I-797 form (Notice of Action) with valid extension dates and an I-94 form (Arrival/Departure Record). Borrowers unable to provide evidence of lawful residency status in the U.S. are not eligible for financing.

A valid employment authorization document (EAD) must be obtained if the visa is not sponsored by the borrower's current employer. If the visa will expire within 6 months of loan application, it is acceptable to obtain a letter from the employer documenting the borrower's continued employment and continued visa renewal sponsorship (employer on the loan application must be the same as on the unexpired visa).

Borrowers (continued)

Non-Permanent Resident Aliens, continued

If a non-U.S. citizen is borrowing with a U.S. citizen, it does not eliminate visa or other residency requirements. Individuals in possession of spouse or family member visas are to qualify as co-borrowers only. A valid EAD must be provided to use income for qualification.

Borrowers who are residents of countries which participate in the State Department's Visa Waiver Program (VWP) will not be required to provide a valid visa. Participating countries can be verified through the U.S. Department of State website at https://travel.state.gov/content/travel/en/us- visas/tourism-visit/visa-waiver-program.html.

Credit Requirements

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

Qualifying U.S. Credit

The Qualifying U.S. Credit designation refers to a non-U.S. citizen borrower who meets Standard Tradelines in Tradeline Requirements.

Qualifying Foreign Credit

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

Qualifying Foreign Credit borrowers must establish an acceptable credit history subject to the following requirements:

- Three open accounts with a 2-year history must be documented for each borrower reflecting no late payments
- A 2-year housing history can be used as tradeline
- U.S. credit accounts can be combined with letters of reference from verifiable financial institutions in a foreign country to establish the 3 open accounts and an acceptable credit reputation. If letters of reference are obtained, they must:
- State the type and length of the relationship, how the accounts are held, and status of the account;
- Contact information must be provided for person signing the letter; and
- Translations must be signed and dated by a certified translator.

Assets

All funds required for down payment and closing costs on Non-Permanent Resident Alien transactions must be seasoned for 60 days. See Asset Analysis.

Assets required for closing must also be seasoned in a U.S. depository institution for 30 days prior to closing. Foreign assets deposited into a U.S. institution within 60 days of application are acceptable if there is evidence that the funds were transferred from the country from which the borrower previously or currently resides. It must also be established that the funds belonged to the borrower before the date of transfer.

Borrowers (continued)

Customer Identification Program (CIP)

The USA Patriot Act requires banks and financial institutions to verify the name, date of birth, address and identification number of all borrowers. CMS follows published CIP procedures to ensure the true identity of all borrowers has been documented.

Exclusionary List / OFAC / Diplomatic Immunity

All parties involved on each transaction must be screened through any exclusionary list used by the seller. CMS must apply its exclusionary list policy to any loans originated under these guidelines.

Parties to the transaction must also be cleared through OFAC's SDN List (borrowers, property sellers, employers, banks, etc.). A search of the Specially Designated Nationals and Blocked Persons List must be completed via the U.S. Department of the Treasury website: https://sanctionssearch.ofac.treas.gov/

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

Individuals with diplomatic immunity are not eligible due to the inability to compel payment or seek judgment. Verification the borrower does not have diplomatic immunity can be determined by reviewing the visa, passport, and/or the U.S. Department of State's Diplomatic List at http://www.state.gov/s/cpr/rls/.

First Time Investor

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

Limited Power of Attorney

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

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

Borrowers (continued)

Vesting and Ownership

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

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

Note: Vesting in the name of a Trust is not permitted.

Vesting in the Name of a Business Entity

Vesting in the name of an LLC, partnership, corporation, or S-corporation is acceptable on investment property transactions only. To vest a loan in an Entity, the following requirements must be met:

- Business purpose and activities are limited to ownership and management of real estate
- Business Entity is limited to a maximum of 4 'owners' (owners are members, partners, or shareholders, as the case may be)
- All Entity owners must be natural persons and provide a personal Guaranty for the loan
- Each Entity owner must complete a 1003. The loan application, credit report, property Debt Coverage Ratio (DCR) and assets for each owner will be used to determine qualification and pricing.
- Each Entity owner must receive notice of the loan and its terms prior to closing

The following Entity documentation must be provided:

- Entity Articles of Organization, Partnership, and Operating Agreements (if applicable)
- Tax Identification Number
- Certificate of Good Standing
- Certificate of Authorization for the person executing all documents on behalf of the Entity

No seller shall suggest or encourage the formation of an Entity for the purpose of obtaining a mortgage loan. Such structures shall be initiated and arranged by the owners of the Entity.

Borrowers (continued)

Vesting in the Name of a Business Entity, continued

Documents must be completed and signed as follows:

Document Type	Requirement(s)
Business Purpose and Occupancy Affidavit (Initial)	The initial disclosure provided is for informational purposes only. No signatures required.
Loan Application (1003)	Completed and signed by each owner as an individual.
Disclosures (Notice of Intent to Proceed, Servicing Disclosure, etc.)	Completed and signed by each owner as an individual.
Guaranty	Completed and signed by each owner as an individual (or 'Guarantor'). The owner's signature on the Note as an Individual may also serve as evidence of Personal Guaranty.
Closing Disclosure	Completed and signed by each owner as an individual and by the authorized owners(s) of the Entity that can legally sign and bind Entity.
Other Closing Documents (Closing Disclosure, Business Purpose and Occupancy Affidavit, etc.)	Completed and signed by each owner as an Individual and by the authorized owners(s) of the Entity that can legally sign and bind Entity.
Note, Deed of Trust / Mortgage, and all **Riders**	Completed by the authorized owner(s) of the Entity who can legally sign and bind Entity.

Multiple Financed Properties

There is no limit on the number of other properties borrowers may currently have financed.

CMS Mortgage exposure must not exceed a maximum of five (5) CMS loans for each individual borrower. Exceptions to this policy will be reviewed on a case-by-case basis.

Borrowers (continued)

Ineligible Borrowers

The following borrowers are not eligible:

- Borrowers with diplomatic immunity or otherwise excluded from U.S. jurisdiction
- Residents of any country not permitted to transact business with US companies are ineligible (as determined by any U.S. government authority)
- Irrevocable Trusts or Land Trusts
- Borrowers less than 18 years old
- Loans to employees of CMS
- Inter Vivos Revocable Trust
- Foreign Nationals
- Deferred Action for Childhood Arrivals (DACA - EAD Category C33)

CREDIT ANALYSIS

Credit Report

A credit report is required for every borrower and/or guarantor. The credit report should provide merged credit information from the 3 major national credit repositories. A valid Social Security number (SSN) is required for all borrowers on the loan.

Either a three-bureau merged report or a Residential Mortgage Credit Report (RMCR) is required. The credit report should include verification of all credit references provided on the loan application and must certify the results of public record searches for each city where the individual has resided in the last 2 years.

Age of Credit Report

All credit documentation, including the credit report, must not be more than 60 days old at the time of closing.

Fraud Alerts

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

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

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

Credit Analysis (continued)

Credit Report, continued

Credit Report Security Freeze

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

Credit Score Requirements

Each borrower and/or guarantor must have a valid score from at least 2 of the following 3 agencies: Experian (FICO), Trans Union (Empirica), and Equifax (Beacon). Only scores from these agencies are acceptable.

The applicable credit score is the middle of three scores provided for any borrower. If only two credit score are obtained, the lesser of two will be used. When there are multiple borrowers, the lowest applicable score from the group of borrowers is the representative credit score for qualifying.

Tradeline Requirements

Investor Advantage Minimum Tradelines			
	Occupancy	**Tradeline History**	**Minimum Standards**
Standard Tradelines	Investment	3 tradelines reporting for 12+ months with activity in last 12 months or 2 tradelines reporting for 24+ months with activity in last 12 months	0X60 for most recent 12 months

All borrowers must meet the minimum tradeline requirements under the Investor Advantage Program.

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

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

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

Credit Analysis (continued)

Evidence of Primary Residence	All borrowers must presently own or rent their primary residence. Evidence is required.
	Borrowers who own a primary residence must provide:
	• Proof of ownership of a primary home superior in value and/or appeal to subject
	Borrowers who rent a primary residence must provide:
	• Evidence of an active lease in place
	• Primary residence must be supported by one of the following characteristics:
	  o Geographically consistent with borrower's place of employment. If the 1003 employment section is blank, the Underwriter must add a condition for the 1003 to list the borrower's Employer name and address; or
	  o General appeal and location of primary is superior to subject property
	Note: Living rent free is not acceptable.

Mortgage and Rental Payment Verification	Mortgages and rental payments combined must not exceed 1x30 in the past 12 months. Mortgage and rental payments not reflected on the original credit report must be documented via an institutional Verification of Rent or Verification of Mortgage (VOR/VOM). A combined total of all late mortgage and rental payments in the past 12 months must be used to determine the housing history. All mortgages on the subject property and the borrower's primary residence must be rated even if the mortgage is not in the borrower's name. If the borrower is making payments to an individual or interested party, 12 months of cancelled checks or bank statements must be obtained. A VOR/VOM is not required but may be requested for clarification. All mortgages and rental payments must be current at time of closing. If the credit report or VOR/VOM reflects a past-due status, updated documentation is required to verify account is current.

Credit Analysis (continued)

Real Estate Owned (REO)

The 1003 Schedule of Real Estate Owned section must be completed with the borrower's primary residence (if owned) and the subject property.

A mortgage rating is required for:

- The subject property,
- The borrower's primary residence, and
- Any other property with mortgage debt that the borrower is liable for (personally or LLC)

The 1003 REO Schedule is not required to include other REO properties, however all mortgage debts must be disclosed under Liabilities. Discrepancies with undisclosed liabilities per fraud reporting tools must be resolved prior to closing.

If the mortgage is paid to a private party, then cancelled checks or bank statements will be required; otherwise, a VOM is acceptable for commercial liens that aren't reported on the credit report.

Rolling Late Payments

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

Past Due Accounts

Past due consumer debts can be no more than 30 days past due at time of closing. Consumer late payments may not exceed 1x60 over the prior 12 months for Investor Advantage.

Credit Analysis (continued)

Delinquent Credit Belonging to Ex-Spouse

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

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

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

Lawsuit / Pending Litigation

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

Consumer Credit Counseling Service (CCCS)

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

Collections and Charge-Offs

The following accounts may remain open:

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

Collection and charge-off balances exceeding the amounts listed above must be paid in full.

Credit Analysis (continued)

Collections and Charge-Offs Paid through Closing Transaction

If collection or charge-off accounts are being paid off through our closing transaction, a payoff demand or credit report or supplement will be required. The credit report or supplement must list the same information as a payoff demand (e.g. per diem amount, balance, rate, mailing address.)

The amount reflected on the credit report or supplement can be used UNLESS:

- The account is listed on the Title report
- The reporting date on the credit report is older than 90 days
- Underwriter discretion for layered risk

Example: The account is not recently rated, large balance owed and the borrower is short to close

Judgments and Tax Liens

Court-ordered judgments must be paid in full.

Housing Events

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

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

Housing Events must be seasoned for a minimum of 36 months from loan closing.

Seasoning of a foreclosure, deed-in-lieu, or short sale is measured from the date of completed sale or final property transfer. The Housing Event must be completed prior to loan closing with no outstanding deficiency balance remaining.

For a 120-day mortgage late, seasoning is from the date the mortgage was brought current. Seasoning for a modification is from the date the modification was executed.

If the property was surrendered in a Chapter 7 bankruptcy, the bankruptcy discharge date is used for seasoning. Bankruptcy papers are required to show the property was surrendered. The foreclosure action is not required to be fully complete.

Bankruptcy

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

Credit Analysis (continued)

Forbearance due to Presidentially Declared Disasters, including COVID-19

Generally, borrowers who have missed mortgage payments on any mortgage while in forbearance related to a presidentially declared disaster will not be penalized, however any such disaster forbearance must be documented as follows:

- Borrower has continued to make all payments within the month due: No additional action is necessary, the borrower is eligible for any Carrington non-agency loan program. The borrower is not required to remove the disaster forbearance status on mortgages that are paid timely.
- Borrower has missed payments after establishing a disaster forbearance: If any mortgage payment was not paid within the month due after the disaster forbearance was established, the forbearance may be resolved through one of the following two options:
  1. Remove the disaster forbearance status and reinstate the mortgage by making a lump-sum payment to bring the mortgage current. The impact of any lump sum payment must be considered in the asset analysis. Funds may not be borrowed for the purpose of a full reinstatement after the date of the loan application. Or
  2. Complete three (3) regular monthly payments after an approved loss mitigation option with the current servicer, such as a repayment plan, payment deferral, or trial payments for a loan modification. The three (3) regular monthly payments must be made on time, late payments during the first three month after a loss mitigation option will render the borrower ineligible. Any remaining balance due after three timely payments are made pursuant to a loss mitigation option may be included in a rate and term or cash out refinance.

Borrowers who have missed payments pursuant to a disaster forbearance must provide documentation of acceptable resolution of any hardship. Missed mortgage payments after establishing a disaster forbearance will not be deemed as “late” payments for the purpose of establishing eligibility or credit grade, provided the forbearance is documented per the requirements above. A borrower who experiences a Housing Event, including foreclosure, short sale, or deed-in-lieu of foreclosure after a forbearance must continue to meet all program guidelines related to Housing Events, including seasoning and credit grading.

EMPLOYMENT/INCOME ANALYSIS

Requirements There is no employment verification or income analysis under the Investor Advantage Program.

RATIOS AND QUALIFYING

Overview The minimum Debt-Coverage Ratio (DCR) = 0.75.

See the Carrington Investor Advantage Program Matrix for LTVs.

Debt Coverage Ratio (DCR) A Debt-Coverage Ratio (DCR) must be calculated for the subject property to take advantage of expanded LTVs. See the Carrington Investor Advantage Program Matrix for available LTVs when the DCR is ≥ 0.75%.

The DCR calculation is as follows:

Debt-Coverage Ratio = Gross Income / Proposed PITIA

To calculate gross income, use the lower of the (a) executed lease agreement or (b) market rent from appraisal form 1007. If the executed lease agreement reflects a higher monthly rent, it may be used in the calculation when evidence of receipt of the higher amount for the 3 most recent, consecutive months is provided.

Adjustable Rate Qualifying For all ARM loans, qualify at the greater of the note rate or the fully indexed rate rounded up to the nearest eighth percentage.

ASSET ANALYSIS

Requirements

Verification of assets is required for purchase or refinance transactions to evidence sufficient funds for closing and reserves.

Asset Documentation

Assets must be seasoned for 60 days or sourced, and verified with one of the following:

- Most recent 2 months' account statements, or most recent quarterly account statement, indicating opening and closing balances, and reflecting a consecutive 60 days of asset verification
    - Supporting documentation must be obtained for single, unexplained deposits that exceed 2% of the appraised value for the loan.
    - Documentation of large deposits is not required on refinance transactions
- If account summary page provides the required information, additional pages are not required.
- Written Verification of Deposit (VOD), completed by the financial institution
    - Must include the current and average balances for the most recent 2 months
    - Large disparities between the current balance and the opening balances will require additional verification or supporting documentation
- Account statements must provide all of the following information:
    - Borrower as the account holder
    - Account number
    - Statement date and time period covered
    - Current balance in US dollars

Down Payment

See the Carrington Investor Advantage Program Matrix for specific LTV and down payment requirements.

Reserves

Reserves are measured by the number of months of housing expense a borrower could pay using his or her financial assets. See the Carrington Investor Advantage Program Matrix

Net proceeds from cash-out transactions **may not** be used to meet the reserve requirement. Gift funds may not be considered.

Qualifying Reserves on ARM Loans

Reserves on ARM loans must be determined based on the Fully Indexed Rate.

Reserves are measured by the number of months of the qualifying payment amount for the subject mortgage (based on PITIA) that a borrower could pay using his or her financial assets.

VERIFICATION OF ASSETS

Borrowed Funds Secured by an Asset

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

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

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

Business Assets

For self-employed borrowers, business assets are an acceptable source of funds for down payment and closing costs. The borrowers on the loan must have 100% ownership of the business and must be the owners of the account.

A letter from a CPA or borrower must be obtained verifying that the withdrawal of funds for the transaction will not have a negative impact on the business. If a CPA letter is not provided, a cash flow analysis of the tax returns, business bank statements, and P&L (when applicable) must be completed by the Underwriter to determine if the withdrawal of funds from the business is acceptable.

Concessions and Contributions

- **Financing Concessions**

  Financing concessions are not permitted.

- **Sales Concessions**

  Sales concessions include:

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

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

- **Seller Contributions**

  For investment property transactions, the property seller and/or interested parties are permitted to contribute up to 2%.

Verification of Assets (continued)

Depository Accounts

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

The Underwriter must investigate any indications of borrowed funds, including recently opened accounts, recent large deposits, or account balances that are considerably greater than the average balance over the previous few months. A signed, written explanation of the source of funds must be obtained from the borrower and the source of funds verified. Unverified funds are not acceptable. See also Asset Documentation.

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

NOTE: Payable on death (POD) depository accounts are regular accounts which pass to a designated individual or individuals upon death of the primary owner. POD bank accounts are permitted for the primary account owner only. The surviving owner(s) must have a death certificate for the deceased owner to claim ownership.

Earnest Money / Cash Deposit on Sales Contract

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

- Copy of the borrower's canceled check
- Certification from the deposit holder acknowledging receipt of funds
- VOD or bank statement showing that the average balance was sufficient to cover the amount of the earnest money at the time of the deposit

If the earnest money check is required for funds to close, bank statements must cover the period up to and including the date the check cleared the account. If the earnest money has not cleared the account, a copy of the check and receipt from the closing agent are required; however, the earnest money may not be credited towards funds to close unless clearance is documented.

Gift Funds

Gift funds are not allowed under the Investment Property Program.

Gifts of Equity

Gifts of equity are not allowed under the Investment Property Program.

Verification of Assets (continued)

Foreign Assets

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

Funds required for closing (down payment and closing costs) must be seasoned in a U.S. depository institution for 30 days prior to closing.

Life Insurance

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

If the funds are needed for the down payment or closing costs, CMS must document the borrower’s receipt of the funds from the insurance company by obtaining either a copy of the check from the insurer or a copy of the payout statement issued by the insurer.

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

Minimum Borrower Contribution

Investment Property transactions require all funds (100%) come from the borrower.

Like-Kind Exchanges

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

Rent Credit for Lease with Purchase Option

Borrowers may apply a portion of the rent paid to their down payment requirements. Credit for the down payment is determined by calculating the difference between the market rent and the actual rent paid for the last 12 months. The market rent is determined by the appraiser in the appraisal for the subject property.

The Underwriter must obtain the following documentation:

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

Verification of Assets (continued)

Retirement Accounts

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

If the retirement assets are in the form of stocks, bonds, or mutual funds, the account must meet the requirements of Stocks, Bonds, and Mutual Funds for determining value and whether documentation of the borrower's actual receipt of funds is required when used for the down payment and closing costs.

If the borrower intends to use the retirement account to satisfy asset requirements, the value of the asset must be reduced by the funds being withdrawn prior to determining a 3-year continuance of income.

Sale of Personal Assets

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

The Underwriter must document the following:

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

Secondary / Subordinate Financing

Secondary / subordinate financing is not permitted under the Investor Advantage Program.

PACE, HERO and other Energy Efficiency Loans

Liens for Property Assessed Clean Energy (PACE) or Home Energy Renovation Opportunity (HERO) and other energy efficiency loans must not remain on title.

Loans used to finance energy improvements such as PACE or HERO loans must be paid off and included in the new mortgage as follows: loans with seasoning of 12 months or longer may be refinanced as a Rate/Term transaction. Loans with seasoning of less than 12 months must be refinanced as a cash-out transaction. Seasoning is measured from the recording date of the energy improvement loan to the Note date of the new refinance loan transaction.

Verification of Assets (continued)

Stock Options

Vested stock options are an acceptable source of funds for down payment and closing costs when immediately available to the borrower. The value of vested stock options can be documented by:

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

Stocks, Bonds, and Mutual Funds

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

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

Trust Accounts

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

To document trust account funds, the Underwriter must:

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

Ineligible Sources of Assets

- Cash-on-hand
- Sweat equity
- Gift or grant funds which must be repaid
- Down payment assistance programs
- Bridge loans
- Unsecured loans or cash advances
- Section 8 Voucher Assistance
- Cryptocurrency (digital assets such as bitcoins)

PROPERTY

General Property Requirements

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

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

Property (continued)

Uniform Residential Appraisal Report (URAR)

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

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

Appraisal Report Requirements

The following items must be contained in the appraisal report:

- Street map showing the location of the subject property and all comparables used.
- Exterior building sketch of the improvements indicating dimensions. A floor plan sketch is required along with calculations demonstrating how the estimate for gross living area is determined. For a unit in a condo project, the sketch of the unit must indicate interior perimeter unit dimensions rather than exterior building dimensions.
- Original color photographs or digital color images of the front, street, and rear views of the subject property. Original digital black and white photographs/pictures are permitted if the appraisal clearly indicates the subject property meets our standards.
- Interior photos of the subject are required to include the kitchen, all bathrooms, the main living area, any areas with physical deterioration, and any renovations/ improvements.
- Any other data as an attachment or addendum to the appraisal report form necessary to provide an adequately supported estimate of market value.
- An analysis of all agreements of sale, options or listings for the subject property current as of the effective date of the appraisal, and analysis of all sales of the subject property that occurred within the 3 years prior to the effective date of the appraisal.
- An analysis of comparable rental properties and estimate of Market Rent utilizing FNMA 1025 Small Residential Income Property Appraisal Report or FNMA 1007 Single Family Comparable Rent Schedule.
- A completed Sales Comparison Approach section of FNMA Form 1004 where there are comparables used with more than one sale or transfer in the 12 months prior to the effective date of the appraisal.

Property (continued)

Uniform Residential Appraisal Report (URAR) (continued)

- Appraiser comments on any unfavorable conditions, such as adverse environmental or economic factors, and how those conditions impact the market value of the property. In those cases, the appraiser's analysis must reflect and include comparable sales that are similarly affected.
- Certification and Statement of Limiting Conditions signed by the appraiser.

Appraiser Qualifications

See CMS Appraisal Management Policy.

Electronic Submission of Appraisal Report

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

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

Transferred Appraisals

Transferred appraisals are permitted with underwriting approval and proof the transferred appraisal complies with Appraiser Independence Requirements (AIR).

Refer to CMS Appraisal Management Policies and Procedures.

Age of Appraisal and Appraisal Updates

Properties must be appraised within the 240 days that precede the date of the note and mortgage.

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

If the appraiser indicates on the Form 1004D that the property value has declined, then the Underwriter must obtain a new appraisal for the property.

If the appraiser indicates on the Form 1004D that the property value has not declined, then the Underwriter may proceed with the loan in process without requiring any additional fieldwork.

Note: The appraisal update must occur within the 120 days that precede the date of the note and mortgage.

Property (continued)

Uniform Residential Appraisal Report (URAR) (continued)	The original appraiser should complete the appraisal update; however, Underwriters may use substitute appraisers. When updates are completed by substitute appraisers, the substitute appraiser must review the original appraisal and express an opinion about whether the original appraiser's opinion of market value was reasonable on the date of the original appraisal report. The Underwriter must note in the file why the original appraiser was not used.
Minimum Property Standards	All properties must: • Be improved real property • Be designed and available for year around residential use • Contain a kitchen and a bathroom • Contain a minimum of 600 square feet of gross living area • Be heated by a continuously fueled heat source which is permanently affixed to the real estate. Alternative heat sources are acceptable when marketability has been demonstrated. • Average or better than average condition • Represent the "highest and best" use of the subject • Be free of all health and safety violations • NOT be in violation of any housing codes or exhibit items that adversely affect the ownership, habitability, or marketability of the subject property • Must have a remaining economic life of 30 years
Property Location	See the Carrington Investor Advantage Program Matrix. Subject property must be subject to the laws of the state in which the loan is made.
Eligible Property Types	• Single-Family Residence • Planned Unit Development Type E (existing) • Planned Unit Development Type F (new)* • Townhomes • 2-4 unit Multi-Family Properties* • Modular Homes* • Condominium (low-rise and high-rise)* • Site Condominium **See the Carrington Investor Advantage Program Matrix for LTV restrictions.*

Property (continued)

Ineligible Property Types

- Manufactured Homes
- Co-operative Units
- Condotels or Condo Hotels
- Non-Warrantable Condominiums
- Mixed-Use Properties
- Leaseholds
- Log Homes
- Rural Properties
- Agriculturally Zoned
- Farms or Hobby/Working Farms
- Unique Properties (Earth Homes, Berm Homes, Dome Homes, etc.)
- Properties with oil, gas, or mineral rights
- Builder Model Leaseback
- Non-Conforming zoning regulations that prohibit rebuilding
- State-approved medical marijuana producing properties

Market Analysis

Neighborhood Review

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

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

Compatibility of Subject Property and Neighborhood

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

Property (continued)

Market Analysis (continued)

Proximity of Comparable to Subject Property

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

For properties in established subdivisions, condo projects or PUDs, comparable sales from within the same subdivision or project as the subject property must be used if the subdivision or project has resale activity. Use of comparable properties located outside of the established subject neighborhood must be explained in the appraisal analysis.

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

Age of Comparables

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

Property Values within Market Area

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

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

The appraiser must provide their conclusions for the reasons a market is experiencing declining property values, an over-supply of properties, or marketing times over 6 months. The Market Conditions Addendum (FNMA Form 1004MC) is required for all loans with appraisals of 1-4 unit properties.

Property (continued)

Market Analysis (continued)

Redlining Prohibition

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

Over Improvements

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

Property (continued)

Valuation Analysis

Sales Comparison Approach

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

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

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

Comparable sales utilized in the market approach should:

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

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

Property (continued)

Valuation Analysis (continued)

Cost Approach

When completed, the cost approach must clearly segregate value attributed to land, outbuildings, etc. See also Land Value. Appraisals that rely solely on the cost approach as an indicator of market value are not acceptable.

Income Approach

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

Valuation Analysis and Final Reconciliation

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

Appraisal Review Process

The Appraisal Review Process requires a secondary due diligence product to support the appraised value for the transaction. Acceptable products include:

- Desk Review (must contain a value and comparative sales data to support the valuation result)
- Second Full Appraisal

Loan amounts ≥ $1,000,000 require a Second Full Appraisal.

Appraised values ≥ $1,500,000 require a Carrington Capital Management (CCM). When two appraisals are present the lowest value is used.

Desk Reviews and Second Full Appraisals, when required, must be ordered from a CMS-approved AMC. A Second Full Appraisal must be completed by a different appraiser and a different AMC than the first appraisal. CMS reserves the right to request additional appraisal products at our discretion based on review of the appraisal and loan file.

Existing CMS policies must be followed for guidance on ordering discretionary appraisal review products if there are concerns with the original appraisal report.

Appraisal Review Tolerance

For Investor Advantage loans, a 10% tolerance is permitted for secondary review products. If the review product value is more than 10% below the appraisal value, the lower of the two values must be used.

In the event that two appraisals are obtained and a variance >10% exists, the value closest to the secondary review product value must be used.

PROPERTY CONSIDERATIONS

Accessory Units

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

- Property is typical, readily-acceptable, and common in the subject's market area
- Property must conform to all zoning laws and/or regulations
- Appraisal contains 3 comparables with similar additional accessory units
- Accessory unit is substantially smaller than the primary dwelling
- Legal non-conforming use is acceptable provided its current use does not adversely affect value and marketability
- Any rental income received from the accessory unit must not be used for qualifying
- Existence of the unit must not jeopardize any future hazard insurance claim that may need to be filed for the property

Additions without Permits

If the appraiser identifies an addition(s) that does not have the required permit, the appraiser must comment on the quality and appearance of the work and its impact, if any, on the market value of the subject property.

Dampness

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

Deed Restrictions

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

- Age Restricted Communities

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

- Appraisal supports property is common and typical for the market area
- Deed restriction must not impair or restrict the first mortgage holder's legal rights in the event of a default (or cure), foreclosure, or any other default measure
- Declarations must not contain any provisions that would require the first mortgage holder to send a notice of default or foreclosure to any third party
- Deed restriction must not require the lender to provide notification to the governing authority of any delinquency or default

Property Considerations (continued)

Deferred Maintenance

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

Disaster Areas

CMS is responsible for identifying areas impacted by disasters and taking the appropriate steps to ensure the subject property has not been adversely affected. Examples of disasters include, but are not limited to, hurricanes, earthquakes, floods, landslides, tornadoes, wildfires, volcanic eruptions, civil unrest, and terrorist attacks.

Adverse events that receive a formal disaster declaration issued by local, state or federal departments of emergency management must follow the procedures listed below. A list of all federally declared disaster areas is available on the FEMA website at http://www.fema.gov/disasters.

In addition, when there is knowledge of an adverse event occurring in and around the subject property's geographic region and a formal declaration has not yet been made, additional due diligence is required to determine whether the disaster area guidelines must be followed.

- **Time Period**

  Guidelines for disaster areas must be followed for 90 days from the incident period ending date or the date the adverse event occurred, whichever is later.

- **Appraisal Not Completed or Appraised Prior to Disaster Incident**

  When the appraisal was completed prior to the disaster incident, or the appraisal has not been completed, an interior and exterior inspection of the subject property is required.

  - Inspection must be completed by licensed third-party professional to certify the condition of the subject property and to identify any impact to habitability or marketability
  - Inspection report must include photographs of front, rear and street view of the property
  - Any damage must be repaired and re-inspected prior to purchase
  - File must contain a copy of the inspection report and evidence of inspector licensing

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

  - Appraiser must comment on the adverse event and certify there has been no decline in value
  - Existing damage must meet requirements in Deferred Maintenance

Property Considerations (continued)

Disaster Areas (continued)	• **Appraised After Disaster Incident** When the inspection date of the appraisal is after the disaster incident, the following requirements must be met: o Appraiser must comment on the adverse event and any effect on marketability or value o Existing damage must meet requirements in Deferred Maintenance • **Disaster Incident Occurs After Closing, Prior to Funding or Purchase** Loan is ineligible for purchase or funding until an appraisal update or final inspection from the appraiser is obtained. o Appraiser must comment on the adverse event and certify there has been no decline in value o Existing damage must meet requirements in Deferred Maintenance
Electrical Systems	An electrical certification from a licensed electrician is required if the appraisal notes a fair or poor rating concerning the adequacy or condition of the system. Any electrical inadequacies must be corrected prior to closing.
Environmental Hazards	The appraisal report must note the existence of known environmental hazards and its effect on value and marketability of the subject property. Environmental hazards may include but are not limited to: • Evidence of radon above EPA safety levels which is left untreated • Properties built on or near toxic waste dumps, cleanup sites, etc. • Presence of urea formaldehyde foam insulation (UFFI) A property inspection completed by a licensed inspector is required in order to make final determination of the acceptability of the property. The mortgagor's acknowledgment of condition is required.
Escrows for Work Completion	Not Allowed.
Flood Zone	The appraisal must indicate if the property is located in a flood zone. Refer to Flood Insurance for additional information on flood certifications and flood insurance.

Property Considerations (continued)

Foundation Settlement

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

Properties with evidence of sinkhole activity are ineligible for financing.

Heating Systems

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

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

Land Value and Acreage

Maximum acreage under the Investor Advantage Program is 2 acres. Acreage and land value must be typical and common for the subject's market.

Log Homes

Log homes are ineligible.

Mixed Use Defined

Properties that have a business use in addition to their residential use, such as a property with space set aside for a day care facility, a beauty or barber shop, or a doctor's office are not eligible.

Modular Homes

Modular, prefabricated, panelized, or sectional housing homes are eligible for financing at a maximum LTV of 80%. Modular homes must meet all of the following requirements:

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

Property Considerations (continued)

Multiple Parcels

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

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

New Construction

The following are required for all new construction properties:

- Appraisal Update and/or Completion Report (FNMA Form 1004D) with complete interior and exterior photos reflecting completion, if applicable. Proposed improvements are not allowed.
- To calculate property taxes for new construction, use the estimated taxes from the builder or escrow/closing agent or the Prequalification Tax Rate Table can be used when other resources do not exist to provide tax information for the subject property county. This table contains recommended percentages; however, actual values should be used whenever possible.

Pest Infestation

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

Plumbing

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

Property Considerations (continued)

Private Roads

Properties on private roads are acceptable subject to the following:

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

PUD (Planned Unit Development)

A Planned Unit Development (PUD) is a project or subdivision that consists of common property and improvements that are owned and maintained by an owners' association for the benefit and use of the individual PUD units. In order for a project to qualify as a PUD, each unit owner's membership in the owners' association must be automatic and non-severable and the payment of assessments related to the unit must be mandatory. Zoning is not a basis for classifying a project or subdivision as a PUD. The PUD project must be analyzed to ensure that an individual unit in the project will be acceptable security for the mortgage.

There are two distinct classifications for PUD projects: Type E (established) and Type F (new).

Detached PUDs

If the subject property is a detached unit, no analysis is required.

Attached PUDs

Attached Type E PUD: the developer must have turned over voting control of the HOA to the unit purchasers. This is the sole criteria to qualify a Type E Project.

Property Considerations (continued)

PUD (Planned Unit Development) (continued)	Attached Type F PUD: the developer has not turned over voting control of the HOA to the unit purchasers. The project must meet the following eligibility criteria: • The project cannot have been created by the conversion of existing buildings into a PUD • The project must not include any multi-dwelling units that represent the security for a single mortgage • The project must not be composed of manufactured homes • A sufficient number of the total units in the project (or legal phase) must have been conveyed or be under contract to be sold to the purchasers in order to determine whether the presales will support the responsibilities of the owners' association for at least 2 years • The units must be owned in fee simple and the unit purchasers must the sole ownership interest in, and right to the use or, the projects' facilities once control of the owners' association has been turned over to them
Repairs	The appraisal must identify all items that require repair. It should also include and describe physical deficiencies that could affect a property's soundness, structural integrity, livability or improvements that are incomplete. Any immediate or necessary repairs must be completed and re-inspected by the appraiser prior to closing. See also Deferred Maintenance.
Rural Properties	Rural properties are ineligible.
Septic System / Sewage Disposal System	Sewage disposal systems require certification if the appraiser or purchase contract indicates the necessity. The report should be provided by a city, county, state (or governing body) official or qualified entity stating: • Sewage disposal system complies with applicable local and/or state health standards, is in proper working order, and can be expected to function satisfactorily; or • Local and/or state health standards do not apply for the sewage disposal system; however, it is found to be in proper working order and adequate for the subject property. For systems one-year-old or less, the certification must be no more than one-year-old on the date of closing. For systems more than one-year old, the certification must be no more than 120 days old on the date of closing.

Property Considerations (continued)

Solar Panels

Properties with solar panels are eligible for financing. If the property owner is the owner of the solar panels, standard eligibility requirements apply (for example, appraisal, insurance, and title). If the solar panels are leased from or owned by a third party under a power purchase agreement or other similar arrangement, the following requirements apply (whether to the original agreement or as subsequently amended):

- The solar panels may not be included in the appraised value of the property.
- The property must maintain access to an alternate source of electric power that meets community standards.
- The lease or power purchase agreement must indicate that:
  - any damage that occurs as a result of installation, malfunction, manufacturing defect, or the removal of the solar panels is the responsibility of the owner of the equipment and the owner must be obligated to repair the damage and return the improvements to their original or prior condition (for example, sound and watertight conditions that are architecturally consistent with the home);
  - the owner of the solar panels agrees not to be named loss payee (or named insured) on the property owner's property insurance policy covering the residential structure on which the panels are attached. As an alternative to this requirement, the lender must verify that the owner of the solar panels is not a named loss payee (or named insured) on the property owner's property insurance policy; and
  - in the event of foreclosure, the lender or assignee has the discretion to:
    - terminate the agreement and require third-party owner to remove the equipment;
    - become, without payment of any transfer or similar fee, the beneficiary of the borrower's lease/agreement with the third party; or
    - enter into a new lease/agreement with the third party, under terms no less favorable than the prior owner.

Property Considerations (continued)

Unconventional Floor Plans

Properties with unusual floor plans or functional obsolescence are allowed if the appraisal demonstrates acceptability in the market place and includes appropriate adjustments. A floor plan sketch is required for all appraisals.

Water Supply

Water certification must be obtained if required by the appraiser or purchase contract. The report should be provided by a city, county, state (or governing body) official or a qualified entity stating:

- The water supply system is in proper working order and pumping an adequate supply of water for the subject property; and
- The water supply is potable and complies with local and/or state health authority standards (in the absence of a local health authority, a reputable chemical testing agency must certify that the water is fit for human consumption). The water certification(s) for existing properties can be no more than 120 days old on the date of closing. If new construction, the report may be one-year old as of the date of closing.

Zoning and Land-Use Regulations

Property improvements must constitute a legally permissible use of the land based on the zoning ordinance. If the improvements represent a legal, non-conforming use of land, a letter from the local building authority or appraiser must be obtained to certify the subject property can be rebuilt "as is" in the event of partial or total destruction.

The appraiser must compare the existing and potential use of the subject property to the zoning regulations. In addition, the appraiser must note any adverse effect that a non-conforming use has on the value and marketability of the subject property.

Special consideration must be given to properties that are subject to other types of land use regulations, such as coastal tideland or wetland laws, as setback lines or other provisions may prevent reconstruction or maintenance of the property improvements in the event of damage or destruction. The intent of some land-use regulations is to remove existing land uses and to stop land development (including the maintenance, or new construction, or seawalls) within specific setback lines. Except as stated above, properties with land-use restrictions which prohibit the reconstruction to maintenance the dwelling are ineligible.

CONDOMINIUMS

Condominiums

A condominium is a form of ownership in which the interior space is individually owned and the balance of the property (including land and building) is owned collectively with the other unit owners.

Definitions of Established and New Condominiums

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

Established condominium projects meet the following criteria:

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

New condominium projects meet the following criteria:

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

General Condominium Requirements

All condominium projects must meet the following requirements:

- All common areas and amenities within the project or subject phase must be complete.
- Subject unit must have at least 600 square feet of living space.
- The sustainability, marketability and financial stability of the project must be supported.
- Project must be located in an area where acceptability of condominium ownership is demonstrated.
- The project must be in compliance with all applicable state or local laws. The homeowners' association must be incorporated in the state where the project is located.
- Condo projects must have acceptable insurance coverage.
- An environmental hazard assessment is required for condo projects if an environmental problem is identified by CMS through performance underwriting or due diligence.

Condominiums (continued)

General Condominium Requirements (continued)

- Projects with pending or threatened litigation are typically ineligible. Litigation may be acceptable if it is determined to be minor and immaterial.
- The project must be located on one contiguous parcel of land. The project may be divided by a public street.
- The structures within the project must be within a reasonable distance from each other. Common elements and facilities, such as recreational facilities and parking, must be consistent with the nature of the project and competitive in the marketplace.
- All programs are limited to a maximum number of units within one project of 20% or 20 loans, whichever is less.
- The maximum loan concentration by an individual borrower in a single condo development is 10%.

Condominium Project Review

A valid project review is required for all condominium transactions, along with a completed *CMS Mortgage Homeowners' Association Certification*. The HOA certification must not be greater than 120 days old at the time of closing.

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

PERS (Project Eligibility Review Service)

PERS project approvals: https://www.fanniemae.com/singlefamily/project-eligibility

Projects with Fannie Mae PERS approvals are acceptable and can be found on the Fannie Mae website. Projects must also meet the General Condominium Requirements and must not be an Ineligible Project. A PERS approval is valid for 18 months from the date of issue and must be valid as of the note date.

New projects are acceptable only with a PERS approval.

FHA Approved Condominiums

FHA condo approvals: https://entp.hud.gov/idapp/html/condlook.cfm

Projects with FHA condo approvals are acceptable and can be verified on the HUD website. Projects must also meet the General Condominium Requirements and must not be an Ineligible Project. An FHA condo approval must be valid as of the date of the note.

Condominiums (continued)

HOA Certification Review

For all established condominium projects without valid PERS or FHA approvals, or for projects that do not meet all the requirements of the various project review methods, an HOA Certification Review is required. CMS must review the completed CMS Mortgage Homeowners' Association Certification (InterIsland HOA Questionnaire) to ensure compliance with the following requirements:

- Project must meet the definition of an established condo.
- At least 50% of the total units in the project must be conveyed to purchasers as primary or second homes.
- No more than 15% of the total units in a project may be 60 days or more past due on their HOA dues.
- No single entity, the same individual, investor group, partnership, or corporation may own more than 10% of the total units in the project. For projects with 1-4 total units, single entity ownership must not exceed 1 unit. For 5-20 unit projects, single entity ownership must not exceed 2 units.
- No more than 25% of the total square footage of the project may be used for commercial purposes.
- Mortgagee must not be responsible for more than the greater of 6 months or the maximum amount permitted under applicable state law of delinquent HOA dues. For condos in Florida, the first mortgagee's liability for dues assessed prior to its acquisition of title is limited to the lesser of 12 months' assessments or 1% of the original mortgage debt.
- All facilities related to the project must be owned by the unit owners or the HOA cannot be subject to a lease between the unit owners or HOA and another party.
- HOA certification reflects the funding of replacement reserves for capital expenditures and deferred maintenance that is at least 10% of the budget.

Condominiums (continued)

Condominium Conversions

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

Site Condominiums

Projects consisting of single-family detached dwellings (also known as site condominiums) are acceptable provided the appraisal supports market acceptance of site condominiums in the subject's market area. A Homeowners' Association Certification is not required

Appraisals for site condos are to be documented on FNMA Form 1004. The appraiser must include an adequate description of the project, information about the homeowners' association fees, and note the quality of the project maintenance.

Ineligible Projects

The following are ineligible Condominium Projects:

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

PROPERTY INSURANCE

Requirements

In addition to the insurance requirements outlined below, rent loss insurance for the subject property is required and must equal at least 6 months of gross monthly rents. Blanket policies covering the subject property are permitted.

Hazard Insurance

Minimum Hazard Insurance Coverage Amount

Hazard insurance must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. The coverage must provide for claims to be settled on a replacement cost basis. Extended coverage must include, at a minimum, wind, civil commotion (including riots), smoke, hail, and damages caused by aircraft, vehicle, or explosion.

Hazard insurance policies that limit or exclude from coverage (in whole or in part) windstorm, hurricane, hail damages, or any other perils that normally are included under an extended coverage endorsement are not acceptable.

Borrowers must not obtain hazard insurance policies that include such limitations or exclusions, unless they are able to obtain a separate policy or endorsement from another commercial insurer that provides adequate coverage for the limited or excluded peril or from an insurance pool that the state has established to cover the limitations or exclusions.

The minimum requirements for the Hazard Insurance is outlined in the CMS Insurance Binder/Policy, which must be provided covering the subject property to include the following:

- Coverage must be in an amount at least equal to the lessor of the replacement cost from the property appraisal or the base loan amount, or the policy must include “Guaranteed Replacement Cost” (if the policy includes “Extended Replacement Cost” the additional amount may be applied towards the dwelling amount).

  Dwelling Coverage determined by totaling the following:

  Dwelling Amount +
  Dwelling Amount (other structures)*
  Extended Replacement Cost %

  Example: $100,000 (Dwelling) + $10,000 (Other Structures) = $110,000
  50% (Extended Replacement Cost) = $165,000 (Total Dwelling Coverage)

- A Cost Estimator from the insurance agent may only be used to determine the replacement cost of the subject property in absence of an appraisal with a completed replacement cost.

Property Insurance (continued)

Hazard Insurance (continued)

Determining the Amount of Required Hazard Insurance

The following tables describes how to calculate the amount of required hazard insurance coverage:

Determining Hazard Insurance	
Step	**Description**
1	Compare the insurable value of the improvements as established by the property insurer to the unpaid principal balance of the mortgage loan.
1A	If the insurable value of the improvements is less than the unpaid principal balance, the insurable value is the amount of coverage required.
1B	If the unpaid principal balance of the mortgage loan is less than the insurable value of the improvements, go to Step 2.
2	Calculate 80% of the insurable value of the improvements.
2A	If the result of this calculation is equal to or less than the unpaid principal balance of the mortgage, the unpaid principal balance is the amount of coverage required.
2B	If the result of this calculation is greater than the unpaid principal balance of the mortgage, this calculated figure is the amount of coverage required.

Examples			
Category	**Property A**	**Property B**	**Property C**
Insurable Value	$90,000	$100,000	$100,000
Unpaid Balance	$95,000	$90,000	$75,000
80% Insurable Value	—	$80,000	$80,000
Required Coverage	$90,000	$90,000	$80,000
Calculation Method	Step 1A	Step 2A	Step 2B

Property Insurance (continued)

Hazard Insurance (continued)

Deductible Amount

The maximum allowable deductible for insurance covering a property securing a first mortgage loan is 5% of the face amount of the policy. When a policy provides for a separate wind-loss deductible (either in the policy itself or in a separate endorsement), that deductible must be no greater than 5% of the face amount of the policy.

Evidence of Hazard Insurance

Policy must be effective for at least 60 days after the date of funding (does not apply to condominium project insurance policies). Evidence of Insurance must be provided in one of the following forms:

- Policy
- Certificate of Insurance (COI)
- Insurance Binder

Evidence of Insurance must provide the following information:

- Names of borrowers reflect the same as the names on the note
- Property address agrees with the note/security instrument
- Mailing address is the same as property address
- Policy Number
- Loan Number
- Name of insurance company
- Insurance Agent information
- Effective and expiration dates of coverage
- Premium Amount
- Coverage amount and deductible
- Loss payee clause as applicable
- Signed and dated by agent

Optional Coverage

Hazard insurance policies may include optional coverage(s) which are acceptable, but are not required. For example, a “homeowners” or “package” policy is acceptable as long as any part of the coverage that exceeds the required coverage is not obligated for renewal.

Property Insurance (continued)

Hazard Insurance (continued)

Rating Requirements

The hazard insurance policy must be written by a carrier that meets at least one of the following requirements:

- Carriers rated by A.M. Best Company, Inc. must have:
  - a "B" or better Financial Strength Rating in Best's Insurance Reports, or an "A" or better Financial Strength Rating and a Financial Size Category of "VIII" or
  - greater in Best's Insurance Reports Non-US Edition
- Carriers rated by Demotech, Inc. must have an "A" or better rating in Demotech's Hazard Insurance Financial Stability Ratings
- Carriers rated by Standard and Poor's must have a "BBB" or better Insurer Financial Strength Rating in the Standard and Poor's Ratings Direct Insurance Service

Policies underwritten by a state's Fair Access to Insurance Requirements (FAIR) plan or other state insurance plan are also acceptable, if it is the only coverage that can be obtained.

An insurance policy that includes either of the following endorsements will assure full insurable value replacement cost coverage:

- A Guaranteed Replacement Cost Endorsement (under which the insurer agrees to replace the insurable property regardless of the cost) and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement (which waives the requirement for coinsurance).
- A Replacement Cost Endorsement (under which the insurer agrees to pay up to 100% of the subject property's insurable replacement cost, but no more) and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement (which waives the requirement for coinsurance).

Unless a higher maximum amount is required by state law, the maximum deductible amount for policies covering the common elements in a PUD project is the lesser of $10,000 or 5% of the policy face amount. However, for losses related to individual PUD units that are covered by the blanket policy for the project, the maximum deductible related to the individual unit must not exceed 5% of the face amount of the insurance policy. Funds to cover these deductible amounts should be included in the operating reserve account that is maintained by the homeowners' association.

Property Insurance (continued)

Condominium and PUD Project Insurance Requirements	**Minimum Hazard Insurance Coverage** Insurance must cover 100% of the insurable replacement cost of the project improvements and common elements, including the individual units in the project. If the subject property is an attached PUD or a condominium, the respective associations may acquire a blanket policy to cover the project. The entire project insurance policy must be reviewed to ensure the homeowners' association maintains a master or blanket type of insurance policy, with premiums being paid as a common expense. The policy must show the HOA as the named insured. For PUD projects, individual insurance policies are also required for each unit. If the project's legal documents allow for blanket insurance policies to cover both the individual units and the common elements, blanket policies are acceptable in satisfaction of its insurance requirements for the units. The policy must require the insurer to notify in writing the HOA (or insurance trustee) and each first mortgage loan holder named in the mortgagee clause at least 10 days before it cancels or substantially changes a condo project's coverage. **HO-6 Insurance Coverage for Condominiums** If the unit interior improvements are not included under the terms of the condominium policy, the borrower is required to have an HO-6 hazard policy ("wall-in coverage"), which is sufficient to repair the condo unit to its condition prior to a loss claim event. **Deducible Amount** For policies covering the common elements in a PUD project and for policies covering condo projects, the maximum deductible amount must be no greater than 5% of the face amount of the policy. For losses related to individual PUD units that are covered by the blanket policy for the project, the maximum deductible amount related to the individual unit must be no greater than 5% of the replacement cost of the unit. If, however, the policy provides for a wind-loss deductible (either in the policy itself or in a separate endorsement), that deductible must be no greater than 5% of the face amount of the policy. For blanket insurance policies that cover both the individual units and the common elements, the maximum deductible amount related to the individual unit must be no greater than 5% of the replacement cost of the unit.

Property Insurance (continued)

Condominium and PUD Project Insurance Requirements (continued)

General Liability Coverage

Project liability insurance requirements are as follows:

- The homeowners' association must maintain a commercial general liability insurance policy for condo projects or Type F PUD projects, including all common areas and elements, public ways, and any other areas that are under its supervision.
- The insurance must cover commercial spaces that are owned by the homeowners' association, even if they are leased to others. The commercial general liability insurance policy must provide coverage for bodily injury and property damage that result from the operation, maintenance, or use of the project's common areas and elements.
- The amount of liability coverage must be at least $1,000,000 for bodily injury and property damage for any single occurrence.
- The policy must provide for at least ten days' written notice to the owners' association before the insurer can cancel or substantially modify it. For condominium projects, similar notice must also be given to each holder of a first mortgage or share loan on an individual unit in the project.

An insurance policy that includes either of the following endorsements will assure full insurable value replacement cost coverage:

- A Guaranteed Replacement Cost Endorsement (under which the insurer agrees to replace the insurable property regardless of the cost) and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement (which waives the requirement for coinsurance); or
- A Replacement Cost Endorsement (under which the insurer agrees to pay up to 100% of the subject property's insurable replacement cost, but no more) and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement (which waives the requirement for coinsurance).

Fidelity Bond Coverage

Fidelity bond coverage is required for condominium projects over 20 units (or per state requirements). The insurance coverage must be at least equal to the greater of 3 months HOA dues or reserves or minimum required by state law. Coverage is not required when the calculated amount is $5,000 or less.

Property Insurance (continued)

Flood Insurance

Flood insurance is required for any property located within any area designated by the Federal Emergency Management Agency (FEMA) as a Special Flood Hazard Area (SFHA). A SFHA is typically denoted as Flood Zone A or Zone V (coastal areas). Properties in Flood Zone A or V must be located in a community which participates in the FEMA program to be eligible for financing.

Flood Certificate

Determination whether a subject property is in a flood zone must be established by a Flood Certificate provided by the Federal Emergency Management Agency (FEMA). The appraisal report must also accurately reflect the flood zone.

The flood insurance requirement can be waived if:

- Subject property improvements are not in the area of Special Flood Hazard, even though part of the land is in Flood Zone A or V; or
- Borrower obtains a letter from FEMA stating that its maps have been amended so that the subject property is no longer in an area of Special Flood Hazard

Minimum Flood Insurance Coverage

The minimum amount of flood insurance required for most first mortgages secured by 1-unit properties and individual PUD units is the lower of:

- 100% of the replacement cost of the insurable value of the improvements;
- the maximum insurance available from the National Flood Insurance Program (NFIP), which is currently $250,000 per dwelling; or
- the unpaid principal balance of the mortgage

Project Flood Insurance Requirements

The flood policy for a PUD or condominium project must cover any common element buildings and any other common property located in a SFHA. The amount of flood insurance coverage for a PUD or condo project must be at least equal to the lesser of 100% of the insurable value of the facilities or the maximum coverage available under the appropriate National Flood Insurance Program (NFIP).

Deductible Amount

The maximum allowable deductible is the maximum available from the NFIP, which is currently $10,000. The maximum allowed deductible for a PUD or condo project is $25,000.

Property Insurance (continued)

Flood Insurance (continued)

Evidence of Flood Insurance

Flood insurance must be maintained throughout the duration of the loan. If final evidence of flood insurance is not available at closing, the following may be used:

- Completed and executed NFIP application with a copy of the borrower’s premium check, the insurance agent’s paid receipt.
- Completed and executed NFIP General Change Endorsement Form showing the assignment of the current flood insurance policy by the property seller to the borrower
- Agent-executed NFIP Certification of Proof of Purchase of Flood Insurance

Evidence of Insurance must provide the following information:

- Names of borrowers reflect the same as the note
- Property address agrees with the note/security instrument
- Mailing address is the same as property address
- Policy Number
- Loan Number
- Name of insurance company
- Insurance Agent information
- Effective and expiration dates of coverage
- Premium Amount and deductible
- Coverage amount
- Loss payee clause as applicable
- Signed and dated by agent

TITLE INSURANCE

Title Policy Requirements

Loans must be covered by a title insurance policy that has been paid in full and is valid, binding, and remains in full force and effect.

Preliminary title must indicate that the final title policy will be issued after funding.

The title insurer must be qualified to do business in the state where the subject property is located. The title insurer and policy must conform to Fannie Mae/Freddie Mac requirements.

Borrower Information

All borrower names must be indicated on the title commitment. If the borrower's marital status appears to be different than on 1003, the discrepancy must be addressed. The property seller's name must be cross referenced to the purchase agreement and valuation chain of title.

Coverage Amount

The amount of title insurance coverage must at least equal the original principal amount of the mortgage.

Insured Name

Title policy must insure that CMS's name appears in the security instrument. It must also include the language "its successors and assigns as their interest may appear."

Age of Report

The preliminary title report/title commitment must be dated no later than 60 days prior to closing. Any requirements by title, such as Statements of Information or copies of trust agreements, must be cleared prior to closing.

Vesting

Final title policy vesting must reflect the name(s) of the individual borrower(s) or business entity if vesting in the name of a business. See Vesting and Ownership.

Gap Coverage

The preliminary title report/title commitment must be updated after closing in writing to ensure the mortgage is in first lien position and documented through one of the following:

- Final title policy
- Title bring-down search representing the period of time from the original search through the time the mortgage is recorded
- Gap coverage from the time of the original search until the mortgage is recorded, when the mortgage is not recorded at the time of diligence

Title Insurance (continued)

Title Policy Requirements (continued)

Title Policy Forms

The final title policy must be written on one of the following forms:

- 2006 American Land Title Association (ALTA) standard form
- ALTA short form
- ALTA form with amendments required by state law in states in which standard ALTA forms of coverage are not used or in which the 2006 ALTA forms have not yet been adopted, provided those amendments are acceptable to Fannie Mae/Freddie Mac

Title Policy Underwriter

A nationally recognized insurer or reinsurer which has received one of the following ratings must have underwritten the title insurance policy:

- BBB or better rating from Duff and Phelps Credit Rating Company
- C or better rating from LACE Financial Corporation
- Baa or better rating from Moody's Investors Service
- BBB or better rating from Standard and Poor's, Inc.
- A Financial Stability Rating of S (Substantial) or better, or a Statutory Accounting Rating of C (Average) or better from Demotech, Inc.

Title Commitment Review

Chain of Title

All files must contain a 24-month chain of title from an acceptable source. For purchase transactions, the chain of title must be reviewed for flipping activity.

Title Exceptions

The following items are allowable title exceptions:

- Customary public utility subsurface easements; the location of which are fixed and can be verified. The exercise of rights of easement will not interfere with use and enjoyment of any improvement of the subject property or proposed improvements upon which the appraisal or loan is based.
- Above-surface public utility easements that extend along one or more property lines for distribution purposes, or along the rear property line for drainage, provided they do not extend more than 12 feet from the subject property lines and do not interfere with any of the buildings or improvements, or with the use of the subject property; and public utility restrictions, provided their violation will not result in the forfeiture or reversion of title or a lien of any kind for damages, or have an adverse effect on the fair market value of the subject property.
- Mutual easement agreements that establish joint driveways or party walls constructed on the subject property and on an adjoining property, provided all future owners have unlimited and unrestricted use of them.

Title Insurance (continued)

Title Commitment Review (continued)

- Encroachments on one foot or less on adjoining property by eaves or other overhanging projections or by driveways provided there is at least a 10-foot clearance between the buildings on the subject property and the property line affected by the encroachments.
- Encroachments on the subject property by improvements on adjoining property provided these encroachments extend one foot or less over the property line of the subject property, have a total area of 50 square feet or less, do not touch any buildings, and do not interfere with the use of any improvements on the subject property or the use of the subject property not occupied by improvements.
- Encroachments on adjoining properties by hedges or removable fences.
- Liens for real estate or ad valor taxes and assessments not yet due and payable.
- Outstanding oil, water, or mineral rights as long as they do not materially alter the contour of the property or impair its value or usefulness for its intended purposes.

Survey Requirements

If the title company requires a survey or plat map due to an exception noted on the title policy, a copy must be submitted in the loan file. Surveys must be certified, dated, and signed by the licensed civil engineer or registered surveyor performing the survey. Unimproved land surveys are not acceptable.

Surveys must be reviewed for easements, encroachments, flood zone impacts, and possible boundary violations, taking into account the location of the dwelling on the property.

Escrow Accounts

Escrow waivers are permitted. Borrowers are not required to establish initial and monthly escrow for annual taxes, hazard insurance, flood insurance (if applicable), and HO-6 insurance coverage (if applicable), unless otherwise specified by applicable state law. If an escrow account is established, one twelfth (1/12) of the annual premiums are to be paid with the principal and interest payments.

End of Document

REVISION SUMMARY

Date	Version	Description of Change
09/23/20	3.1	• Updated **Forbearance Due to a Disaster** requirements.
09/10/20	3.0	• Revised **General Program Information** > **Age of Documentation to** 60 days (was 120 days). • Revised **Credit Report** > **Age of Credit Report** to 60 days (was 120 days). • Revised **Evidence of Primary Residence** to add "If the 1003 employment section is blank, the Underwriter must add a condition for the 1003 to list the borrower's Employer name and address". • Revised **Credit Analysis** > **Housing Events** seasoning to 36 months (was 24 months). • Revised **Credit Analysis** > **Bankruptcy** seasoning to 36 months (was 24 months). • Revised **Asset Analysis** > **Requirements** to state "Verification of assets is required for purchase or refinance transactions to evidence sufficient funds for closing and reserves." • Revised **Asset Analysis** > **Reserves** to requirements. • Added **Qualifying Reserves on ARM Loans** requirements. • **Uniform Residential Appraisal Report (URAR) > Age of Appraisal and Appraisal Updates** to **clarify** 120 days (was 4 months). • Revised **Eligible Property Types** to remove Non-Warrantable Condominiums. • Revised **Ineligible Property Types** to add Non-Warrantable Condominiums. • Removed **Non-Warrantable Condominiums** requirements. • Revised **Title Policy Requirements** > **Age of Report** to 60 days (was 90 days).

Revision Summary, continued

Date	Version	Description of Change
02/05/20	2.7	• Revised **Cash-Out Refinance** to clarify requirements regarding seasoning and closing in the name of a trust or LLC. • Updated requirements for **Solar Panels**.
12/12/19	2.6	• Revised **General Program Information** to add requirements for Business Purpose Loans and All Refinances.
11/21/19	2.5	• Updated Adjustable Rate Qualifying description to ARM loans, qualify at the greater of the note rate or the fully indexed rate rounded up to the nearest eighth percentage. • Updated Ineligible Property Types to remove Properties subject to Rent Control regulations
09/20/19	2.4	• Revised **Cash-out Refinance** requirements (adds title seasoning, removing from a trust, and removes the inheritance exception) • Revised **Vesting in the Name of a Business Entity** to clarify all Entity owners must be natural persons. • Revised **Collections and Charge-Offs Paid through Closing Transaction** to add a credit report or supplement may be used in addition to the payoff demand and must list the same information as a payoff demand.
07/01/19	2.3	• Revised **Appraisal Report Requirements t**o add requirement to obtain an analysis of comparable rental properties and estimate of Market Rent. • Revised **Appraisal Review Process** to add requirements for obtaining a second appraisal for loan amounts ≥ $1M and a CCM review for Appraised values ≥ $1.5M
06/10/19	2.2	• Added **Real Estate Owned (REO)** requirements • Deleted **Verbal Verification of Employment Re-Verification** requirements for Disaster Areas. • Revised **Property Insurance** requirements to use gross monthly rents (formerly local average monthly rents).
04/02/19	2.1	• Removed **Fraud Report and Background Check** section • Added requirements for **Collections and Charge-Offs Paid through Closing Transaction**

Revision Summary, continued

Date	Version	Description of Change
03/26/19	2.0	• Changes made throughout to clarify requirements that must be followed. • Added **Short Term Rental** requirements • Revised **Cash-Out Refinance** to add requirements for Non-mortgage debt paid with cash-out loan proceeds • Revised **Non-Arm's Length Transactions** to clarify Gift funds and Gifts of equity are not permitted • Revised **Earnest Money / Cash Deposit on Sales Contract** to add requirements when earnest money has not cleared account. • Revised **Ineligible Property Types** to add State-approved medical marijuana producing properties and remove Properties that provide income to borrower • Revised **Valuation Analysis > Cost Approach** to clarify requirements • Revised **Appraisal Review Process** • Added **Additions without Permits** • Revised **Chain of Title** to clarify requirements
01/22/19	1.9	• Revised **Evidence of Primary Residence** to add Living rent free is not acceptable. • Revised **Mortgage and Rental Payment Verification** to add "All mortgages on the subject property and the borrower's primary residence must be rated even if the mortgage is not in the borrower's name." • Revised **Debt Coverage Ratio (DCR)** to reduce Minimum DCR to 0.75 (formerly (1.00)
01/17/19	1.8	• Updated **Prepayment Penalty** requirements.
01/14/19	1.7	• Removed Inquiries LOE requirement from **Credit Report** • Revised **Non-Warrantable Condominiums** allowable Single Entity Ownership in project to 30% (from 20%). • Revised **Age of Appraisal and Appraisal Updates** to 240 days (from 12 months) and removed interior photos requirements. • Added requirements for **PACE, HERO and other Energy Efficiency Loans** • Revised **Investor Advantage Forms** to clarify two copies of the *Business Purpose & Occupancy Affidavit* are required: The initial disclosure provided is for informational purpose only and does not need to be signed and the disclosure generated with the closing documents must be signed AND notarized.
12/18/18	1.6	• Revised **Cash-Out Refinance** to add seasoning requirements and clarify how the Cash Out proceeds may be used.

Revision Summary, continued

Date	Version	Description of Change
11/29/18	1.5	• Revised **Investor Advantage Program Overview** to clarify use of loan proceeds. • Added **Non-Arm's Length Transactions** requirements. • Added **Employee(s) of Broker/Seller** requirements.
10/09/18	1.4	1. Revised **Appraisal Review Process** to clarify what secondary appraisal desk review products are permitted. 2. Revised **Properties Listed for Sale** to requirement for borrower to provide intent to occupy letter. 3. Revised **Ineligible Borrowers** to remove Corporations.
09/25/18	1.3	• Revised **Debt Coverage Ratio (DCR)** to remove documentation types. Minimum DCR is 1.0 • Revised **Vesting and Ownership** to delete Inter Vivos Revocable Trust • Revised **Ineligible Borrowers** to remove Limited and general Partnerships and Limited Liability Company (LLC) • Revised **Vesting in the Name of a Business Entity** to remove Income – added property DCR • Revised **Determining Loan-To-Value** to clarify requirements • Deleted **Written Letters of Explanation for Derogatory Credit** requirements. No longer required.
09/13/18	1.2	• Added **Anti-Steering** requirements to **General Program** Information • Revised **Evidence of Primary Residence** to clarify All borrowers must presently own [or rent] their primary residence. • Revised **Appraisal Review** to add Fannie Mae Collateral Underwriter (CU) score requirements • Revised **HOA Certification Review** to clarify the CMS Homeowners' Association Certification is the InterIsland HOA Questionnaire. • Revised **Cash-out Refinance** to remove Cash out is not allowed for Investment Properties in Texas restrictions.
08/27/18	1.1	Revised **Ratios and Qualifying** to clarify Debt Coverage Ratio (DCR) requirements and make DCR naming convention consistent. Revised **Adjustable Rate Qualifying** section to add requirement for ARM Loans to qualify at the note rate.
08/08/18	1.0	New document.