ACTIVATOR

Consumer - Alt Doc

Underwriting Guidelines

Activator - ALT-DOC

ACTIVATOR

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Bank Statements | 1099 Only |W2| Asset Utilization

Primary Residence & Second Home

Loan Amount	FICO	Reserves	Purchase & Rate and Term	Cash Out Refinance
<= 1,000,000	740	6 Months	85%*	75%
	680		85%*	75%
	660*		80%	70%
<= 2,000,000	720	9 Months	80%	75%
	700		80%	70%
	680		75%	65%
<= 2,500,000	740	12 Months	80%	70%
	720		75%	70%
	700		70%	65%
<= 3,000,000	740	12 Months	75%	70%
	720		75%	70%
	700		70%	65%

Housing History & Income Overlay	Occupancy Restrictions – 2nd Home	Property Overlays
0x30x12 ****WVOE**** **Min FICO: 680 | Primary ONLY| FTHB Max 70% LTV (Gift not allowed)** Purchase Max 80% | Refinance Max 70% **Housing Event Seasoning** BK/FC/SS/DL: >= 48 Months	Max LTV/CLTV: Purchase & RT 80% | Cash Out 75% Minimum FICO 700 Maximum Loan Amount $2 million	Condominium Max 85% LTV Non-Warrantable: Max 80% LTV 2-4 Unit: Max LTV 80% Condotels/Rural Properties: Ineligible

State Overlays

Max Loan Amount $2 Million and Max LTV Purchase 75% | Max LTV Refinance 70%: Connecticut, Idaho, Illinois, Louisiana, and New Jersey

North Carolina: Min Loan Amt $300,000

Residual Income: $2,500

Residual Income = Gross Monthly Income – Total Monthly Obligations

An additional $250 for the first dependent and $125 per additional dependent must also be included. Initial 1003 should reflect the number of dependents for all borrowers on transaction.

Ineligible Locations: Hawaii lava zones 1 & 2

General Requirements

Product Type	30-Yr Fixed, 5/6 ARM
Loan Amounts	Min Loan Amount: $150,000 Max Loan Amount: $3,000,000
Loan Purpose	Purchase, Rate & Term Refinance and Cash Out Refinance
Occupancy	Primary and Second Home
Property Type	SFR, PUD, Townhome, 2-4 Units, Condos, Non-Warrantable Condos | Condotels are ineligible, Rural Properties are ineligible
Cash Out	Max Cash In Hand: $500,000. Cash-Out Proceeds may be used for 50% reserve requirements. (Asset utlization not eligible on cash-out program)
Declining Markets	If either or both of the following apply: 1) the appraisal report identifies the property as a declining market; 2) the subject property is in a state listed above in the state restriction section or CBSA in the table below, the maximum LTV/CLTV is limited to 75% for purchases and 70% for all refinances and the maximum loan amount is limited to $2MM.
Citizenship	US Citizen, Permanent Resident Alien, Non-Permanent Resident Alien (With US Credit and acceptable VISA). Citizens of Venezuela are ineligible
Appraisals	Loan Amounts ≥ $1,500,000 require 2 appraisals. Desk review required for all loan files not requiring 2nd appraisal. Transferred appraisal acceptable. 2nd appraisal or Desk Appraisal must be ordered from Champions Approved AMC. Properties with condition rating of 5 or 6 are not acceptable. Properties with C4 ratings require additional review (see guidelines).
Assets	Sourced and seasoned for 60 days
Gift Funds	Borrowers must document a minimum of 5% (of the sales price) of their own funds on purchase transactions. A minimum borrower contribution of 10% must be documented on the following transactions: **Primary residence** with unverifiable housing history | **Second Home**
Acreage	Property up to 10-acres, not meeting the rural definition
Credit	Standard: 3 tradelines reporting for 12+ months or 2 tradelines reporting for 24+ months all with activity in the last 12 months; Max 0x30x12 reporting on acceptable tradelines Qualifying FICO: The middle score if 3 agency scores are provided or lower score when only 2 agency scores are provided, of primary wage earner
Subordinate Financing	Secondary or subordinate financing is allowed with a max CLTV equaling maximum LTV per matrix. No seller carry-back; HELOC CLTV based on credit line limit, negative amortization not allowed, and subordinate financing from the borrower's employer may not include a provision requiring repayment upon termination.
Payment Shock	Maximum payment shock 300% unless one of the following applies: · Residual Income ≥ $2,500 · No consumer lates in past 12 months · Housing Ratio ≤ 25% · Min Reserves exceeded by 3 months · DTI ≤ 35% · Own funds contribution exceeded by at least 5%
Seller Concession	Up to 6% towards closing

Income Requirements – MAX DTI 50%

12 Month Bank Statements	Income calculated based on 12 months recent Business or Co-Mingled bank statements. Refer to program guidelines for calculation methods available. Bank statements should show a stable or increasing trend. If the trend is declining and/or irregular, additional documentation may be required up to and including additional 12 months statements. Borrower(s) must be self-employed for at least 2 years, and the business must be in existence for at least 2 years. All parties listed on bank statement must be included as borrowers on the loan. See expense ratio qualifications in Champions Guidelines.
W2 Income	Most recent Two-year W2s, paystub(s) covering most recent 30-day period providing YTD earnings and VVOE completed by Champions within 10 days of closing. See guidelines for additional documentation requirements.
WVOE	**MIN FICO:** 680 Primary residence only. **Max LTV: Purchase : 80% | Refinance: 70%**. Two year history with same employer is required. FNMA 1005 form required to be completed by employer. Only Wage/Salary income may be used. 2 months bank statements reflecting direct deposits from employer supporting at least 65% of gross wage/salary. Please see guidelines for full program details.
1099 (IRS Form) Only	One (1) Year 1099; Fixed Expense Ratio 10%; YTD Documentation to support continued receipt of income from source. Borrower(s) must be self-employed for at least 2 years, and the business must be in existence for at least 2 years.
P&L Only	Profit and Loss covering most recent 12 months, valid if the most recent month is dated within 90 days of close. Completed and reviewed by CPA, IRS Enrolled Agent, or CTEC (California Tax Education Council) registered tax preparer. See guidelines for additional requirements.
Asset Utilization	**Max LTV:** Purchase | R&T: 80% Cash-Out: 70% 100% of checking, savings and money market accounts. 80% of the remaining value of stocks and bonds 70% of retirement assets. See Calculation options in Champions guidelines. Cash-Out Proceeds may not be used in calculation.

CBSA Restrictions

Max Loan Amt $2MM | Purchase Max LTV 75% | Refinance Max LTV 70%

CBSA Name	CBSA Code	CBSA Name	CBSA Code
Phoenix-Mesa-Scottsdale, AZ	38060	Santa Cruz-Watsonville, CA	42100
Sacramento-Roseville, CA	40900	Boulder, CO	14500
San Francisco-Oakland-Hayward, CA	41860	Breckenridge, CO	14720
San Jose-Sunnyvale-Santa Clara, CA	41940	Sevierille, TN	42940
		Austin-Round Rock, TX	12420

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Overview

Alt-QM guidelines are structured to guide its users towards making common sense lending decisions on loans to borrowers who may have limited access to credit. These borrower's situations generally require the consideration of alternative forms of documenting income and/or compensating factors which offset risk indicated by a recent credit event or elevated debt-to-income ratio. The borrower's ability to repay must be proven in all instances.

Loans eligible for sale to a Government Sponsored Entity (Federal National Mortgage Association ("Fannie Mae" or "FNMA") or Federal Home Loan Mortgage Corporation ("Freddie Mac" or "FHLMC") are not eligible for the Alt-QM programs.

For any guideline not addressed in these guides, defer to Fannie Mae Guidelines.

Program Eligibility

Alt Doc: Program allowing for alternative income documentation to agency guides for qualifying.
The following loan products are eligible:

Fully Amortizing

- 5/6 Month SOFR: (2/1/5 Cap Structure)
- 30 Year Fixed

Qualifying Rate (All Doc Types)

Fixed:
Qualify borrower(s) at the Note Rate.
ARM:
5/6 Month ARM - Qualify borrower(s) at greater of the Fully Indexed Rate or Note Rate.

Qualifying Payment:

Qualifying Ratios are based on PITIA payment with the principal and interest payments amortized over the scheduled loan.
For all ARM loans, the greater of the note rate or the fully indexed rate is used to determine the qualifying PITIA. The fully indexed rate is calculated by adding the margin to the index.

Loan Amounts

Minimum Loan Amount: $150,000
Maximum Loan Amount: $3,000,000

Minimum FICO

- 660

Maximum LTV/CLTV

- 85%/85%

Interested Party Contributions

- 6%

Percentage is based on of the lesser of the property's sales price or appraised value and may be applied towards the buyer's closing costs, prepaid expenses, discount points, and other financing concessions.

Sales concessions include:

- Financing concessions in excess of the max financing concession limitations; or

- Contributions such as cash, furniture, automobiles, decorator allowances, moving costs, and other giveaways granted by any interested party to the transaction (contributions with a combined value under $1,000 should be excluded)

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

Escrows | Impound Accounts (10.17.23)

Borrowers are required to establish initial and monthly escrow for annual taxes, hazard insurance, flood insurance (if applicable), and HO-6 insurance coverage (if applicable), unless otherwise specified by applicable state law. One twelfth (1/12) of the annual premiums are to be paid with the principal and interest payments. Flood insurance is always subject to escrow/impounds.

Secondary Financing (10.17.23)

Secondary or subordinate financing is allowed with a maximum CLTV equaling maximum LTV per matrix.

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

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

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

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

The following requirements apply to all subordinate liens:

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

Age of Documents

90 – days for all credit, income, and asset documents.

Borrower Statement of Occupancy

Borrower must acknowledge the intended purpose of the subject property ("Primary Residence" or "Second Home") by completing and signing the appropriate sections of the "Occupancy Certification" when consummating closing documents.

Borrower Contact Consent Form

To assist the loan servicer in contacting the borrower in a timely manner, the Borrower Contact Consent Form must be completed by the borrower when consummating closing documents.

Ability to Repay/Qualified Mortgage Rule

Champions Funding is exempt from ATR, however, generally all Alt-QM guidelines meet the CFPB's requirements under its Ability-to-Repay (ATR) / Qualified Mortgage Rule, including loans that meet the general ATR requirements and certain higher-priced qualified mortgage loans with rebuttable presumption liability protection,as prescribed by the applicable regulation. Each loan must include a completed ATR Borrower Confirmation form reviewed and executed by the borrower when consummating closing documents.

State and Federal High-Cost Loans

High-Cost loans are not allowed

Prepayment Penalty

Not allowed

Underwriting

All files are manually underwritten

Interest Credit Closings

Loans closed within the first 5 days of the month may reflect an interest credit to the borrower

Assumability

Loans are not assumable.

Property Insurance

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 may 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.

Hazard insurance coverage should be in the amount corresponding to:

- 100% of the insurable value of improvements, as established by the property insurer (Replacement Cost Estimator or equivalent); or
- The unpaid principal balance of the mortgage, as long as it equals the minimum amount (80% of the insurable value of the improvements) required to compensate for damage or loss on a replacement cost basis. If it does not, then coverage that does provide the minimum required amount must be obtained; or
- 100% Replacement Cost Coverage as stated on the policy declaration page; or
- Total dwelling coverage equal to the final loan amount.

If the policy does not have 100% replacement cost or a replacement cost estimate is not provided, a processor's certification from the seller verifying the insurer's replacement cost estimate is acceptable. The certification must include the insurance company's complete information, subject property details, confirm the replacement cost amount determined by the insurer, and be signed and dated by the processor.

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

Evidence of Hazard Insurance

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

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

Evidence of Insurance must provide the following information:

- Names of borrowers reflect the same as the names on the note
- Property address agrees with the note/security instrument
- Mailing address is the same as property address
- Policy Number
- Loan Number
- Name of insurance company
- Insurance Agent information
- Effective and expiration dates of coverage

- Premium Amount
- Coverage 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.

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 Kroll’s Bond Rating Agency must have a “BBB” or better rating in Kroll Bond Rating Agency’s Insurance Financial Strength Rating (IRSR)
- Carriers rated by Standard and Poor’s must have a “BBB” or better Insurer Financial Strength Rating in the Standard and Poor’s Ratings Direct Insurance Service

The following types of property insurance policies are acceptable if they are the only coverage the borrower can obtain:

- policies underwritten by a state’s Fair Access to Insurance Requirements (FAIR) plan; and
- policies obtained through state or territory insurance plans, such as the Hawaii Property Insurance Association (HPIA), Florida’s Citizens Property Insurance Corporation, or other state-mandated windstorm and beach erosion insurance pools.

Transaction Types

Eligible Transactions

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.

Rate/Term Refinance

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

- Existing first mortgage payoff
- Closing costs and prepaid items (interest, taxes, insurance) on the new mortgage
- The amount of any subordinate mortgage liens used in their entirety to acquire the subject property (regardless of seasoning)
- The amount of a home equity line of credit in first or subordinate lien position that was used in its entirety to acquire the subject property (regardless of seasoning)
- Any subordinate financing that was not used to purchase the subject property provided:
- For closed end seconds, the loan is at least one year seasoned as determined by the time between the note date of the subordinate lien and the 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 $2,000.

For rate/term refinance transactions, the current appraised value may be used to determine loan-to- value.

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 requirements.
- The amount of any non-mortgage related debt paid off through closing

- Additional cash in hand reflected on the settlement statement

A signed letter from the borrower disclosing the purpose of the cash-out must be obtained on all cash-out transactions. The purpose of the cash-out should also be reflected on the loan application.
See Champions Funding Matrices for cash-out limits.

Loans not eligible for cash-out:
Texas Home Equity 50 (a)6

Cash Out Seasoning Requirements:

- For all cash-out refinance transactions, 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.
  - There is no waiting period if the borrower acquired the property through an inheritance or was legally awarded the property through divorce, separation, or dissolution of a domestic partnership.
- If the subject 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 appraisal value or previous purchase price plus documented improvements (if any) must be used. The purchase settlement statement and any invoices for materials/labor will be required.

Delayed Financing (10.16.23)

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

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

Benefit to Borrower

In keeping with the commitment of responsible lending, all primary residence and second home refinance transactions must have a measurable benefit to the borrower.

When determining the benefit on a refinance transaction, one or more of the following must exist to support the benefit to the borrower:

- Balloon payoff
- Title transfer
- Property retention
- Rate reduction
- P&I reduction
- Debt reduction
- Uncontrolled cash-out

State-specific and/or federal benefit to borrower compliance requirements must be adhered to. Underwriter will complete the Benefit for Borrower Worksheet to ensure compliance with the benefit to borrower policy. Files must contain documentation supporting the acceptable benefit.

Additional restrictions apply if the new loan refinances an existing loan considered to be a special mortgage.

A special mortgage is originated, subsidized, or guaranteed by or through a state, tribal, or local government, or nonprofit organization that either bears a below-market interest rate at the time the loan was originated or has nonstandard payment terms beneficial to the borrower, such as payments that vary with income, are limited to a percentage of income, or where no payments are required under specified conditions.

If the borrower will lose one or more of the benefits of the special mortgage, then both of the following apply:

- Seller must check that the loan complies with all applicable state and local laws as well as laws associated with the subject special loan program for compliance; and
- Seller must take special care to ensure a net tangible benefit to the borrower

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. The borrower must also confirm in writing the reason for the prior listing and intent to occupy the subject property.

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 and cash-out transactions.

Non-Arm Length and Interested Party 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
- Property seller foreclosure bailouts
- Existing buyer relationship with loan officer, real estate agents, closing agent, appraiser, builder, or developer

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

- Primary residence only
- 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
- Employer to Employee transactions are not allowed
- Transaction makes sense and that the borrower will occupy the property
- All liens on title to be paid in full and reflected on the settlement statement
- Lesser of sales price or current appraised value to be used to calculate the LTV
- Borrowers cannot provide services on transaction (closing agent, title agent, appraiser, etc.) Borrower may not be an owner of a business entity selling the subject property

The following additional requirements apply only to family sales:

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

Inherited Properties and Property Buyouts

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

These transactions are subject to the following:

- Written agreement signed by all parties stating the terms of the buyout and property transfer must be obtained
- Equity owners must be paid through settlement
- Subject property has cleared probate and property is vested in the borrower's name

- Current appraised value is used to determine loan-to-value

Land Contract/Contract for Deed/Lease with Purchase Option (6.13.23)

The payoff of a land contract, lease with purchase option, or rent to own is not eligible for financing.

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.

- 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).

Borrower Eligibility

Non-Occupant Co-Borrowers

Not allowed on this program

First-Time Homebuyer (10.17.23)

An individual is to be considered a first-time home buyer who (1) is purchasing the security property; (2) will reside in the security property as a principal residence; and (3) had no ownership interest (sole or joint) in a residential property during the three-year period preceding the application date of the security property. Note: An individual who is a displaced homemaker or single parent also will be considered a first-time home buyer if he or she had no ownership interest in a principal residence (other than a joint ownership interest with a spouse) during the preceding three-year time period.

The following requirements apply to first-time homebuyer transactions:

- Primary residence only
- Minimum FICO 680

- Minimum 6 months reserves
- DTI may not exceed 45% with a verifiable housing history
- 12-month rental history, reflecting 0x30
    - DTI may not exceed 43% with no housing history or less than 12 months verified.
- Individuals living rent free eligible if they also meet the *No Housing History or Less than 12 Months Verified/Living Rent-Free* restrictions

Residency

Eligible	• U.S. Citizen • Permanent Resident Alien (see requirements that follow) • Non-Permanent Resident Alien (see requirements that follow)
Ineligible	• Borrowers with diplomatic immunity or otherwise excluded from U.S. jurisdiction. • Foreign National • Borrowers not on title • Borrowers from OFAC sanctioned countries • Residents of any country not permitted to transact business with US companies are ineligible (as determined by any US government authority • Any material parties (company or individual) to transaction listed on HUD's Limited Denial or Participation (LDP) list, the federal General Services Administration (GSA)Excluded Party list or any other exclusionary list. • ITIN Borrowers • Borrowers less than 18 years old • Citizens of Venezuela • Trusts or Land Trusts (revocable trusts may qualify for ownership vesting only)

US Citizen

U.S. citizens are eligible for financing.

Permanent Resident Alien

An individual admitted to the United States as a lawful permanent resident. Lawful permanent residents are legally accorded the privilege of residing permanently in the United States.

- Acceptable evidence of permanent residency includes the following:
  - Alien Registration Receipt Card I-551 (referred to as a green card).
  - Alien Registration Receipt Card I-551 (Resident Alien Card) that does not have an expiration date on the back (also known as a green card).
  - Alien Registration Receipt Card I-551 (Conditional Resident Alien Card) that has an expiration date on the back and is accompanied by a copy of the filed INS Form I-751 (petition to removeconditions).
  - Non-expired foreign passport that contains a non-expired stamp (valid for a minimum of three years) reading "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until [mm-dd-yy]. Employment Authorized."
- Eligible without guideline restrictions.

Non-Permanent Resident Alien (10.16.23)

An individual admitted to the United States as a lawful temporary resident. Lawful non-permanent residents are legally accorded the privilege of residing temporarily in the United States. For Verus programs, lenders must validate the borrower has employment authorization. This may be documented with either an EAD or a VISA permitting employment.

- Borrower Eligibility Requirements:
  - Residing in U.S. for at least 2 years; and
  - Must have been employed in the U.S. for at least 2 years as evidenced on the loan application; and
  - Must have valid Social Security Number(s); and
  - Must have established U.S. credit,
- Employment Status Documentation is required for all borrowers, and may consist of one of the following:
  - Employment Authorization Documents
    - A valid current Employment Authorization Document (EAD), Form I-765, is required for US employment if the borrower is not sponsored by a current employer.
      - If the EAD will expire within six (6) months of loan application, it is acceptable to obtain a letter from the employer documenting the borrower's continued employment and continued EAD renewal. The employer on the loan application must be the same as on the

unexpired EAD. The EAD documentation is acceptable up to 540 days if an automatic extension has been granted.

- If EAD is not provided, employment authorization may be evidenced by certain VISA types. Some common VISAs allowing employment include:
  - E-3, H-1B, L, O, and P
- Asylum – Individuals granted asylum are eligible, documentation includes one of the following:
  - Form I-765 Employment Authorization referencing C08
    - After being granted asylum in the United States, DHS issues a Form I-94, Arrival/Departure Record, to asylees. Form I-94 will contain a stamp or notation, such as "asylum granted indefinitely" or the appropriate provision of law (8 CFR 274a.12(a)(5) or INA 208) to show their employment authorization. The asylee does not need to present a foreign passport with this Form I-94. An asylee can also present an electronic Form I-94 with an admission class of "AY."

Deferred Action for Childhood Arrivals (12.11.23)

Deferred Action for Childhood Arrivals (DACA) - On June 15, 2012, the Secretary of Homeland Security announced that certain people who came to the United States as children and meet several guidelines may request consideration of deferred action for a period of 2 years, subject to renewal. They are also eligible to request work authorization. Deferred action is an exercise of prosecutorial discretion to defer removal action against an individual for a certain period of time. Deferred action does not provide lawful status. Individuals who can provide documentation of current DACA status along with work authorization are eligible for financing under the same criteria as a non-permanent resident. The individual is required to have a valid Social Security number, or proof of application for a SSN, along with a 2-year U.S. credit and employment history. Eligible forms of documentation may include the following:

- Consideration of Deferred Action for Childhood Arrivals – Form I-821D
- Application for Employment Authorization – Form I-765
- Worksheet – Form I-765WS
- Valid EAD with category C33

Exclusionary list/OFAC/Diplomatic Immunity

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

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

Borrowers from OFAC sanctioned countries are ineligible. A list of sanctioned countries is available at https://home.treasury.gov/policy-issues/financial-sanctions/sanctions-programs-and-country-information.

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

Inter Vivos Revocable Trust

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

If the trust is established jointly, there may be more than one primary beneficiary as long as the income or assets of at least one of the individuals establishing the trust will be used to apply and qualify for the mortgage.
The trustee must include either:

- The individual establishing the trust (or at least one of the individuals, if 2 or more); or
- An institutional trustee that customarily performs trust functions in and is authorized to act as trustee under the laws of the applicable state.

The trustee must have the power to hold the title and mortgage the property. This must be specified in the trust. One or more of the individual parties establishing the trust must use personal income or assets to apply and qualify for the mortgage.

A copy of the trust is required, or a signed attorney's opinion may be obtained in lieu of the trust documents. The opinion letter must indicate that the trust meets all published requirements and must also include the following:

- Name of the trust
- Date executed
- Settler(s) of the trust
- Whether it is revocable or irrevocable
- Whether the trust has multiple trustees Name of trustees
- Manner in which vesting will be held

The attorney needs to also verify that the trust has not been revoked, modified, or amended in any manner that would cause the representations to be incorrect.

The deed of trust/mortgage and all attached riders must be completed by the authorized trustee(s) of the trust that is the vested owner of the subject property.

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

Credit

Credit Reports

A credit report is required for every borrower. 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.

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

Credit Report Security Freeze

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

Credit Inquiries

A signed letter of explanation from the borrower or creditor is required for all inquiries within the most recent 90 days to determine whether additional credit was granted as a result of the borrower's request.

Updated Payment Histories

Payment histories may be requested directly from a creditor when the credit report indicates delinquencies have been removed or when the majority of credit is from a non-institutional lender.

Debt Monitoring Service

Evidence of an active Debt Monitoring Service is required and must be in effect within 10 days of closing.

Credit Score Requirements

Each borrower 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.

Housing History

Mortgage and rental payments not reflected on the original credit report must be documented via an institutional Verification of Rent or Verification of Mortgage (VOR/VOM). A combined total of all late mortgage and rental payments in the past 12 months must be used to determine the housing history.

If the borrower is making payments to a private mortgage holder, individual or interested party, 12 months of cancelled checks or bank statements must be obtained.

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

No Housing History or Less than 12 Months Verified/Living Rent-Free (10.17.23)

- Primary residence only
- DTI may not exceed 43% for a first-time homebuyer
- Any portion of a 12-month housing history must be paid as agreed
- Borrower(s) who own their primary residence free and clear are not considered living rent-free
- Borrower(s) who sold a primary residence within the past six (6) months and are currently residing rent-free until subject transaction closes are not considered living rent-free.
- 10% minimum borrower contribution

- Payment shock is not considered
- Properties owned free and clear are considered 0x30 for grading purposes
- Fully executed rent-free letter from owner of property stated at rent-free must be provided and include address and length of rent-free residency. Property profile reflecting property owned by rent-free letter provided is also required.
- Minimum 6 months reserves

Housing Events

Housing Events must be seasoned for a minimum of 48 months from closing date.
A Housing Event is any one of the following events listed below:

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

Seasoning of a foreclosure, deed-in-lieu, or short sale is measured from the date of completed sale or final property transfer. The Housing Event must be completed prior to loan closing with no outstanding deficiency balance remaining.
For a 120-day mortgage late, seasoning is from the date the mortgage was brought current.
Seasoning for a modification is from the date the modification was executed.
If the property was surrendered in a Chapter 7 bankruptcy, the bankruptcy discharge date is used for seasoning. Bankruptcy papers may be required to show the property was surrendered. The foreclosure action is not required to be fully complete.

Mortgage Modifications

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

- Forgiveness of a portion of principal and/or interest on either the first or second mortgage
- Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness
- Conversion of any portion of the original mortgage debt to a “soft” subordinate mortgage
- Conversion of any portion of the original mortgage debt from secured to unsecured

Rolling Lates

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

Past Due Accounts (6.13.23)

Past due consumer debts must be paid current at or prior to closing.

Covid Forbearance (6.13.23)

If the borrower has resolved missed payments through a loss mitigation solution, they are eligible for a new mortgage loan if they have made at least three (3) timely payments. FNMA requirements in regards to reinstatement apply.

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)

Borrower enrollment in CCCS is allowed when a minimum of 12 months have elapsed on the plan and evidence of timely payments for the most recent 12 months is provided. The CCCS administrator must also provide a letter allowing the borrower to seek financing on a new home while enrolled in the plan.

If accounts included in CCCS plan reflect as charge-off or collection accounts on the credit report, the balances can be excluded from the charge-off and collection limits in 5.11 Collections and Charge-offs. The monthly CCCS plan payment must be included in the DTI calculation.

If a completion date is not shown on the credit report, the borrower is required to submit verification from the counseling agency establishing the date of completion.

Collections and Charge-Offs

The following accounts may remain open:

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

- All medical collections

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

Judgment and Tax Liens (6.13.23)

All judgments and liens must be paid in full prior to or at closing.

Bankruptcy

All bankruptcies must be discharged or dismissed for a minimum of 48 months from closing date.

Tradeline Requirements (6.13.23)

Standard Tradelines

- 3 tradelines reporting for 12+ months with activity in last 12 months
- 2 tradelines reporting for 24+ months with activity in last 12 months

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

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

Only the primary wage-earner must meet the minimum tradeline requirements listed above.

Credit lines on which the borrower is not obligated to make payments are not acceptable for establishing a minimum history.

Examples of unacceptable tradelines include:

- Loans in a deferment period
- Collection or charged- off accounts
- Accounts discharged through bankruptcy
- Authorized user accounts.

Student loans can be counted as tradelines as long as they are in repayment and are not deferred.

Insufficient Tradelines and Non-Traditional Credit

Insufficient tradelines and non-traditional credit is not allowed.

Obligations not Appearing on Credit Report

Housing and Mortgage Related Obligations

Mortgage and rental payments not reflected on the original credit report must be documented via an institutional Verification of Rent or Verification of Mortgage (VOR/VOM). A combined total of all late mortgage and rental payments in the past 12 months must be used to determine the housing history.

If the borrower is making payments to an individual or interested party, 10-12 of the last 12 months or the most recent 6 months of cancelled checks or bank statements must be obtained. A VOR/VOM is not required but may be requested for clarification.

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

Liabilities

Installment Debt

Installment debt is a monthly obligation with fixed payments and terms. Payments on installment loans must be included in the borrower's debt-to-income ratio.
Payments can be excluded if there are 10 or fewer monthly payments remaining to pay the debt in full. If the payment is substantial and exceeds 5% of the borrower's qualifying income, the overall transaction should be reviewed to ensure the remaining payments will not impact the borrower's ability to handle the new mortgage payment.
Installment debt paid in full prior to closing can be excluded from the debt-to-income ratio. Supporting documentation, such as a credit supplement or direct verification from the creditor, must be obtained as evidence the debt has been paid in full.

Revolving Debt

Revolving debt is open-ended debt in which the principal balance may vary from month to month. The minimum required payment as stated on the credit report or current account statement should be used to calculate the debt-to-income ratio. If no payment is stated on the credit report, the greater of $10 or 5% of the current balance should be included in the debt-to-income ratio calculation.
Revolving accounts are allowed to be paid off prior to or at closing in order to exclude the payment from the debt ratio. Supporting documentation, such as a credit supplement or direct verification from the creditor, must be obtained as evidence the debt has been paid in full.

Authorized User Accounts

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

Business Debt

A business debt is a financial obligation of a business and can be the sole responsibility of the business or be personally secured by the business owner, making that person also liable for the debt. If the debt is reflected on the borrower's personal credit report, the borrower is personally liable for the debt and it must be included in the debt-to-income ratio.
Debts paid by the borrower's business can be excluded from the debt-to-income ratio with any of the following supporting documentation:

- Most recent 3 months canceled checks drawn against the business account; or
- Tax returns reflect the business expense deduction; or

- Business bank account statement showing assets remain after funds to close and reserve requirements are with a balance greater than or equal to the balance of the debt.

Timeshares

Timeshare obligations will be treated as a consumer installment loan.

Student Loans (6.28.23)

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

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

- If the borrower is on an income-driven payment plan, student loan documentation may be obtained to verify the actual monthly payment is $0. The borrower may then qualify with a $0 payment.
- For deferred loans or loans in forbearance, the following must be calculated:
  - a payment equal to 1% of the outstanding student loan balance (even if this amount is lower than the actual fully amortizing payment); or
  - fully amortizing payment using the documented loan repayment terms.

Child Support, Alimony, or Maintenance Obligations

Monthly alimony, child support or separate maintenance fees should be current at time of application and must be included in the borrower's debt-to-income ratio. File should contain supporting documentation as evidence of the obligation, such as a final divorce decree, property settlement agreement, signed legal separation agreement, or court order. If payments are past due, the arrearages must be brought current prior to loan closing.

If 10 or fewer payments remain, see installment debt section above to determine if the obligation may be excluded from the DTI calculation.

Undisclosed Debts

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

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

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

Contingent Liabilities

An individual has a contingent liability when an outstanding debt has been assigned to another party and the creditor does not release the borrower from liability. Contingent liabilities can be excluded from the debt-to- income ratio under any of the following scenarios:

- Property resulting from buyout of former co-owner, e.g., divorce: file must include the court order and evidence of transfer of ownership
- Mortgage assumption by third party: file must include the formal assumption agreement and evidence of transfer of ownership
- Court ordered assignment of debts: file must include a copy of the court order assigning the debt to another party

The payment history for the assigned debt after the effective date of the assignment does not need to be evaluated.

Debt Paid by Others

When a borrower is obligated on a non-mortgage debt but is not the party actually repaying the debt, the monthly payment may be excluded from the borrower's recurring monthly obligations. This policy applies whether or not the other party is obligated on the debt but does not apply if the other party is an interested party to the subject transaction (such as the seller or realtor). Non-mortgage debts include installment loans, student loans, revolving accounts, lease payments, alimony, child support, and separate maintenance.

When a borrower is obligated on a mortgage debt but is not the party who is actually repaying the debt, the full monthly payment may be excluded from the borrower's recurring monthly obligations if:

- the party making the payments is obligated on the mortgage debt,
- there are no delinquencies in the most recent 12 months, and
- the borrower is not using rental income from the applicable property to qualify.

In order to exclude non-mortgage or mortgage debts from the borrower's DTI ratio, the most recent 12 months' canceled checks (or bank statements) must be obtained from the other party making the payments that document a 12-month payment history with no delinquent payments. When a borrower is obligated on a mortgage debt, regardless of whether or not the other party is making the monthly mortgage payments, the referenced property must be included in the count of financed properties.

Housing Payments

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

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

Lease Obligations

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

Open 30-day Charge Accounts

For open 30-day charge accounts that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, 5% of the outstanding balance will be considered to be the required monthly payment.
Open-end accounts do not have to be included in the monthly debt payment if the borrower has sufficient funds to pay off the outstanding account balance. The funds must be verified in addition to any funds required for closing and reserves.
If the borrower paid off the account balance prior to closing, proof of payoff may be provided in lieu of verifying funds to cover the account balance.

Retirement/Savings Plan Loans

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

Material Recurring Non-Debt Obligations

Champions Funding LLC is not permitted to make inquiries or verifications prohibited by Regulation B.
A recurring non-debt obligation is defined as medical expenses for the borrower or a dependent of the borrower that is expected to continue for greater than one year.
If the borrower informs Champions Funding LLC of a recurring non-debt obligation, the loan file must be noted. If the Champions Funding LLC believes it could be material to the borrower's ability to repay the loan, escalation to management is required.
Documentation of material recurring non-debt obligations should be done consistent with seller's ability to repay policies and in a form acceptable to lender.

Payment Shock (4.25.23)

Payment Shock is limited to 300% on primary residence transactions, and is calculated as follows:
Payment Shock = (Proposed Housing Payment / Present Housing Payment) * 100

Payment Shock may be exceeded when one of the following factors is present:

- Residual Income ≥ $2,500
- Debt-to-Income Ratio ≤ 35%
- Housing Ratio ≤ 25%
- Reserves exceed minimum required by at least 3 months
- Borrowers' own funds contribution exceeds minimum required by at least 5%
- All consumer credit paid as agreed in the most recent 12 months

Calculation is based upon the current monthly housing payment and proposed mortgage payment. When the current payment has been made for less than 12 months, the payment made for the longest period during the last 24 months should be used.

For borrowers who have less than a 12-month housing history, do not have a current housing payment, or own a home free and clear, payment is shock is not considered.

Assets

Asset Documentation

Assets to be used for down payment, closing costs, debt payoff, and reserves must be seasoned for 60 days from closing date or sourced.
Assets must be verified with one of the following:

- Account statements for the most recent 2 months or quarter indicating opening and closing balances and reflecting a consecutive 60 days of asset verification
- If account summary page provides the required information, additional pages of the statement are not required.

Note: Large and/or unusual deposits may require additional documentation including letter of explanation, third party documentation, etc. A large deposit is defined as a single deposit that exceeds 50% of the qualifying monthly income. Large deposits do not need to be documented on refinances.

Reserves

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

Net proceeds from cash-out transactions may be used to meet 50% of the reserve requirement. Example: If reserve requirement is $20,000, $10,000 can be covered by cash-out proceeds but borrower must provide assets to cover the other $10,000.

Additional reserves are required when the following situations are present:

- Multiple Financed Properties: 2 months for each additional property
- Use of Rental Income Without a Lease: 3 months in addition to standard requirement
- Use of Rental Income from a Departing Residence: see guidelines for specific requirements

Depository Accounts

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

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

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.

If bank statements provided reflect payments being made on obligations not listed on the credit report, see credit guidelines.

Gift Funds

Gift funds are allowed after the borrower has documented the minimum required borrower contribution.

Gift funds can be used for down payment and closing costs. Gift funds may not be used towards reserves.

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

- Donor's name, address, phone, and relationship to borrower (donor must be a relative); and
- Dollar amount of gift; and
- Date funds were transferred; and
- Donor's statement that no repayment is expected.

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

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

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

Acceptable gift donor must be a relative. A relative is defined as the borrower's spouse, child, or other dependent, or any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship; fiancé, fiancée, or domestic partner.

Spousal Accounts

Accounts held solely in the name of a non-borrowing spouse may be used for down payment and closing costs only and are subject to the same requirements as the borrower's accounts. Accounts held solely in the name of a non-borrowing spouse may not be used to meet reserve requirements.

Minimum Borrower Contribution (4.4.23)

Borrowers must document a minimum of 5% (of the sales price) of their own funds on purchase transactions.

A minimum borrower contribution of 10% must be documented on the following transactions:

- Primary residence with unverifiable housing history
- Second home

Business Assets may be used to meet the borrower's minimum contribution

Business Assets

Business assets are an acceptable source of funds for down payment, closing costs, and reserves for self- employed borrowers.

The borrowers on the loan must have a minimum of 50% ownership of the business and must be owners on the business account. Ownership percentage must be documented via CPA letter, Operating Agreement, or equivalent. All non-borrowing owners of the business must provide a signed and dated letter acknowledging the transaction and confirming the borrower's access to funds in the account. The balance of the business assets must be multiplied by the ownership percentage to determine the owner's portion of business assets allowed for the transaction.

A signed letter from a CPA or borrower must also be obtained verifying that the withdrawal of funds for the transaction will not have a negative impact on the business.

Gift of Equity

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

The following requirements apply:

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

Earnest Money/Cash Deposit on Sales Contract

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

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

Borrowed Funds Secured By an Asset

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

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

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

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

Stock Options

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

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

Retirement Accounts (6.13.23)

Vested funds from individual retirement accounts (IRA/SEP/Keogh/pension/annuities) and tax-favored retirement savings accounts (401(k) accounts) are acceptable sources of funds for the down payment, closing costs, and reserves. Ownership of the account must be verified, and the account must be vested and allow withdrawals regardless of current employment status.

Proof of liquidation is required for any funds being used for cash to close. 60% of vested balance less any outstanding loans is to be used for reserves. This includes Roth IRA/401k.

If the borrower intends to use the retirement account to also satisfy income requirements see Proof of Continuance under income guidelines.

Stocks, Bonds, and Mutual Funds (6.13.23)

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

When used for cash to close, proof of liquidation is required.

When used for reserves, 75% of the value of the assets (as determined above) may be considered, and liquidation is not required.

Trust Accounts (10.17.23)

Assets held in in a Trust require the following:

- Obtain written documentation (e.g., bank statements) 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

Sale of Personal Assets

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

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

Life Insurance

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

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

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

Foreign Assets

All funds required for down payment, closing costs, and reserves must be seasoned for 60 days. Foreign assets deposited into a U.S. institution within 60 days of application are acceptable if there is evidence that the funds were transferred from the country from which the 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.

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

Virtual Currency (6.13.23)

Virtual currency that has been exchanged into U.S. dollars is acceptable for the down payment and closing costs provided the following requirements are met:

- there is documented evidence that the virtual currency has been exchanged into U.S. dollars and is held in a U.S. or state regulated financial institution, and
- the funds are verified in U.S. dollars prior to the loan closing.

A large deposit may be from virtual currency that was exchanged into U.S. dollars. Sufficient documentation must be obtained to verify the funds originated from the borrower's virtual currency account. Virtual currency may not be used for earnest money for the purchase of the subject property.

Virtual currency can be used for reserves without being converted to U.S. dollars at 60% of the current value. Must provide documentation of ownership of the crypto holdings and verification of the current valuation from the Coinbase Exchange within 30 days of note date.

Note: Payment on any debt secured by virtual currency must be included when calculating the debt-to- income ratio.

Ineligible 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
Proceeds of SBA/PPP loans or any other government assistance

Income

Income Analysis

Stability of Income

Stable monthly income is the Borrower's verified gross monthly income which can be reasonably expected to continue for at least the next three years. The borrower must demonstrate that both the source and the amountof the income are stable:

- A two-year employment history is required for the income to be considered stable and used for qualifying.
- When the Borrower has less than a two-year history of receiving income, an analysis must beperformed to justify the stability of the income used to qualify the Borrower.
- While the sources of income may vary, the Borrower should have a consistent level of income despite changes in the sources of income.

Earnings Trends

- Stable or increasing: Income amount should be averaged.
- Declining but stable: If the trend was declining but has since stabilized and there is no reason to believe that the borrower will not continue to be employed at the current level, the current, loweramount of variable income must be used.
- Declining: If trend is declining, the income is not eligible.

Debt to Income Ratio

Max 50%

The Debt-to-Income ("DTI") ratio is calculated and reviewed for adherence to Fannie Mae guidelines and inclusion of all income and liability expenses.

Alternative Income Documentation

The Alt Doc program allows for several income documentation options as outlined below.

Income Documentation Options:

- Asset Utilization
- 12 Months Bank Statements (Business)
- 1099 (IRS Form) Only
- W2 Income

Asset Utilization Qualifier

Asset Utilization may be used to determine qualifying income. See the applicable Champions Funding LLC Matrix for credit score and LTV restrictions.

Asset Utilization Qualifier Income Documentation (9.5.23)

Qualified Assets can be comprised of personally held stocks, bonds, mutual funds, vested amount of retirement accounts and bank accounts. Business accounts are prohibited. If a portion of the Qualified Assets is being used for down payment, closing costs, or reserves, those amounts must be excluded from the balance before analyzing a portfolio for income determination.

Six-month seasoning of all assets is required. All asset documentation may not be more than 30 days old at the time of closing.

Assets Eligible for Qualifier

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

- 100% of checking, savings, and money market accounts
- 80% of the remaining value of stocks & bonds
- 70% of retirement assets
- Trust Assets
  - Assets held in a revocable trust where the trustee to the trust is the borrower.
  - Assets in a irrevocable trust where the borrower is the beneficiary, and the borrower has immediate access to the assets of the trust
  - Based upon the assets held in the trust, the above percentages apply.

Assets Ineligible for Qualifier

- Equity in Real Estate;
- Privately traded or restricted/non-vested stocks;
- Any asset that produces income already included in the income calculation;
- Any assets held in the name of a business.

- Business accounts and foreign assets are prohibited.
- Crypto Currency
- Cash-Out proceeds may not be used toward calculation

Qualifying Income Calculation (9.5.23)

To calculate qualifying income using Asset Utilization, see below:

Debt Ratio Calculation

Borrowers must have a minimum of the lesser of (a) 1.5 times the loan balance or (b) $1mm in Qualified Assets, both of which must be net of down payment, closing costs, and required reserves to qualify.

See the applicable Champions Funding LLC Matrix for max debt ratios.

The income calculation is as follows:

Monthly Income = Net Qualified Assets / 60 Months

12 Month Business or Co-Mingled Bank Statements (10.17.23)

Self-employed borrowers are eligible for Business or Co-Mingled Bank Statement Documentation. Borrowers may provide 12 consecutive months of business bank statements.

The following requirements apply:

- Borrower must be self-employed for at least 2 years.
- Business must be in existence for at least 2 years.
- Self-Employed Business Narrative Form is required.
- Statements must be consecutive and reflect the most recent months available.
- Statements must support stable and generally predictable deposits. Unusual deposits must be documented.
- Multiple bank accounts may be used, but a combination of Personal Bank Statement Documentation and Business Bank Statement Documentation is prohibited.
- Nonprofit entity not eligible.
- Evidence of a decline in earnings may result in disqualification.
- NSF activity in the past 12 months must be satisfactorily explained by the borrower. Maximum 3 NSF in past 12 months is allowed.
- If bank statements provided reflect payments being made on obligations not listed on the credit report, Undisclosed Debts section for additional guidance.
- W-2 Wages: Additional income deposited into the bank statements but derived from a source other than the self-employed business may not be included in the bank statement average. W-2 earnings must be documented as per the requirements in Wage-Earners section along with a processed 4506- C verifying the W-2 earnings only.
- Co-Mingled bank account is a personal account used by a borrower for both business and personal use. A separate business account is not required.
  - Borrower must be the sole owner of the business (borrower and spouse with combined 100% ownership eligible).

- Additional verification of deposits may be required to validate that they are business related and not personal deposits.

Documentation (9.18.23):

- The following documentation is required:
- 12-months complete business or co-mingled bank statements from the same account (transaction history printouts are not acceptable)
- Required Expense Statement documentation applicable to Calculation Option chosen (see Calculating Qualifying Income for requirements)
- Verification borrower is minimum 50% owner of business (100% if using co-mingled):
  - Ownership percentage must be documented via CPA letter, Operating Agreement, or equivalent.
  - All non-borrowing owners of the business must provide a signed and dated letter acknowledging the transaction and confirming the borrower's access to the account for income-related purposes.
  - Qualifying Income must be multiplied by the ownership percentage to determine the owner's portion of income allowed for the transaction.
- Self-Employed Business Narrative Form (or equivalent) is required
- Verification borrower has owned and business has been in existence for 2 years
- Verification of business existence required within 10 business days of closing

Analyzing the Business Bank Statements (9.18.23)

The following requirements apply when analyzing the bank statements:

- Business bank accounts, personal bank accounts addressed to a DBA, or co-mingled accounts with evidence of business expenses can be used for qualification.
- Large and/or unusual deposits, wire transfers, and transfers for other accounts may require additional documentation including letter of explanation, third party documentation, etc., or may be removed from consideration.
- A large or unusual deposit is any deposit exceeding 50% of the average monthly sales of the business.
- Statements should show a trend of ending balances that are stable or increasing over time. Decreasing or negative ending balances must be explained.
- Expense line items that can be added back to the net business income include depreciation, depletion, amortization, casualty losses, and other losses that are not consistent and reoccurring.
- Champions Funding LLC reserves the right to require additional information, including but not limited to, 3rd Party Expense Ratio or Profit & Loss Statements, regardless of business type.

Calculating Qualifying Income (10.17.23)

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

Option 1: Third-Party Prepared Expense Statement

The Expense Statement must be prepared, signed, and dated by a third-party Tax Professional (defined as a CPA, Tax Attorney, Enrolled Agent (EA), or Paid Tax Professional (PTIN)), who is knowledgeable of the borrower's business, specifying business expenses as a percentage of the gross annual sales/revenue prepared. Minimum expense ratio of 10% required. The statement must be provided on the Tax Professional's letterhead addressed to the borrower, and must not contain any exculpatory language that may compromise the integrity of the information provided. Reverse verification and validation of the statement must be completed by operations personnel.

Qualifying Income is the lower of the following calculations:

- Monthly net income using the Expense Statement
- Income indicated on the initial signed 1003

Net income from the Expense Statement is calculated by determining total deposits per bank statements (minus any disallowed deposits) multiplied by 100 minus the expense percentage provided by CPA or tax preparer, multiplied by the borrower's ownership percentage and divided by 12 months.

$$\text{Net Income} = \frac{\text{Total Eligible Deposits} * \text{Borrower Ownership Percentage} * (1 - \text{Expense Statement Percentage})}{12 \text{ or } 24 \text{ months}}$$

Option 2: Fixed Expense Ratio of 50%

Qualifying Income is the lower of the following calculations:

- Monthly net income using 50% of Total Eligible Deposits
- Income indicated on the initial signed 1003

Option 2 cannot be utilized if third-party documentation indicating an expense ratio greater than 50% has been disclosed.

Net income is calculated by determining total eligible deposits per bank statements (minus any disallowed deposits) multiplied by 50% after accounting for the borrower's ownership percentage and divided by 12 or 24 months.

$$\text{Net Income} = \frac{\text{Total Eligible Deposits} * \text{Borrower Ownership Percentage} * 50\%}{12 \text{ or } 24 \text{ months}}$$

1099 (IRS Form) Only

Payments to sole proprietors or contract individuals are reported on IRS Form 1099 and included in the borrower's Schedule C. Documentation of 1099 income is considered Alternative Income Documentation. See matrix for specific restrictions.
To utilize 1099 income, the following requirements must be met:

- 1099 for the most recent complete year is provided
- Borrower must have been self-employed for at least 2 years
- Borrower has been with same 1099 provider for the past 2 years
- 1099s are validated with a wage and income transcript from the IRS
- Year-to-date earnings are verified via a YTD paystub, written VOE, or other equivalent third- party documentation
- Income subject to 10% expense factor deduction
- Self-Employed Business Narrative Form (or equivalent) is required.

P&L Only (10.17.23)

Profit and Loss statement prepared by a Certified Public Accountant (CPA), an IRS Enrolled Agent (EA), or a CTEC registered tax preparer. Documentation must be provided showing the CPA is currently licensed in their state, the EA is currently active (Screen shot of the IRS web site), or the CTEC is active (Screen shot from the CTEC web site).

- 12-Month CPA, EA or CTEC compiled P&L statement
  - Minimum 25% business ownership required
    - If ownership percentage is not provided by the preparer of the P&L, an operating agreement can be provided
  - Proof business has been in operation for 24 months or greater
  - 12-month (P&L) prepared/compiled and signed by a CPA (proof of CPA current state license required, or EA (proof EA currently active on IRS web site), CTEC (proof CTEC currently active on CTEC web site) dated within 30-days of the loan application, representing total business sales and expenses for the time period covered, and
  - The preparer must attest they have reviewed or completed the borrower's most recent tax return or financial statements and provide the borrower's ownership percentage
  - Qualifying income is the net income from the P&L divided by the time period covered (12 months) multiplied by the borrower's ownership percentage
  - Expenses on the P&L must be reasonable for the industry, Champions reserves the right to require additional information.
- When analyzing the P&L Statement, the following may be added back to the borrower's calculation:

- Depreciation
- Depletion
- Amortization/Casualty Loss

WVOE (9.19.23)

A written Verification of Employment may be utilized when documenting wages/salary income. The following criteria applies

- Min FICO 680
- Primary Residence Only
- 24-month 0x30 housing history required
- Max LTV Purchase: 80%
- Max LTV for Refinance: 70%
- Two-year history with the same employer is required
- Completed on FNMA 1005 form
- Paystubs, Tax Returns or W2s not required
- Form 4506 C required (for CDFI purposes)
- Must be completed by Human Resource, Payroll Department or Officer of the Company
- Two (2) months personal bank statements required to support the WVOE. The bank statements must reflect deposits from the employer supporting at least 65% of the grow wage/salary reflected on the WVOE.
- First-Time Home Buyer maximum LTV 70%; NO GIFT FUNDS ALLOWED
- The only eligible source of income is limited to Wage/Salary. Supplemental income sources such as commissions or rental income are not permitted.
- Borrower(s) employed by family members or related individuals not eligible
- An internet search of the business is required documenting the existence of the business

W2

Documentation (10.17.23)

Paystubs and W-2s:

- Pay stubs and W-2s must be typed or computer generated. If internet printout, the URL and date should be included.
- They should provide the borrower's full name, address, employer name, year-to-date earnings, and rate of pay.
- If pay stubs reflects garnishments (child support, IRS, etc.) or any loan deductions, additional information will be required to determine if a monthly payment should be included in the debt-to-income ratio calculation.
- W-2s should reflect a nine-digit Employer ID Number (EIN).

- Social Security and Medicare withholding should be calculated at the appropriate rates on the W-2s and pay stubs.

Note: Any income received by the borrower in the form of virtual currency, such as cryptocurrencies, is not eligible to be used to qualify for the loan. For income types that require sufficient remaining assets to establish continuance, those assets cannot be in the form of virtual currency.

Written Verification of Employment:

- Income and employment must be provided by a FNMA approved 3rd party vendor such as The Work Number. FNMA WVOE Form 1005 is not eligible under the standard income documentation. A FNMA WVOE Form 1005 could be used in conjunction with W2s and paystubs if needed for fluctuating income such as bonus, OT, or commission.
- At a minimum, the verification must include most recent one or two years income along with year to date earnings, the borrower's name, position, dates of employment, and base salary.

Verbal Verification of Employment:

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

- Completed within 10 business days of closing
- Confirm that the borrower is actively employed at time of verification
- Include the name and phone number of the person processing the VVOE
- Include borrower's name, position, and loan number
- Include the name, position and phone number of the person providing the verification (employer)
- Telephone number for the borrower's employer must be verified independently via any of the following: telephone book, the internet, directory assistance, or by contacting the applicable licensing bureau
- For self-employed borrowers, the existence of the business must be independently verified through a disinterested third party within 10 business days of closing. The loan file should reflect the documentation secured from these sources. Sources may include:
    - CPA, regulatory agency, or applicable licensing bureau
    - Secretary of State listing reflecting current year registration
    - Verification of a phone and address listing using the internet
    - If the documentation is over 30 days old, a Processor's Certification verifying employment with the CPA is acceptable. An updated Secretary of State listing or phone and address listing from the internet are also acceptable.

Wage Earners

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

- W-2s for the most recent year, and
- Paystub(s) covering the most recent 30-day period providing year-to-date earnings; and
- Signed and executed 4506-C (W-2 transcripts only); and

- Verbal Verification of Employment (VVOE) completed within 10 business days of closing.

Employment History

Employment must be stable with at least a 2-year history in the same job or jobs in the same field. Income from self-employment is considered stable if the borrower has been self-employed for 2 or more years. Stable income is the borrower's verified gross monthly income which can be reasonably expected to continue for at least the next three (3) years.

Stability of Income:

- When the borrower has less than a two-year history of receiving income, the Seller must provide a written analysis to justify the stability of the income used to qualify the borrower.
- While the sources of income may vary, the borrower should have a consistent level of income despite changes in the sources of income.

Year-to-date (YTD) income amounts must be compared to prior years' earnings using the borrower's W-2 forms, signed federal income tax returns, or bank statements. The earnings trends are addressed as follows:

- Stable or increasing: The income amounts will be averaged.
- Declining but stable: If the 24-month earnings trend shows a decline in borrower income, but the most recent 12-month earning has stabilized and there is no reason to believe the borrower's employment will change, the most recent 12-month average of income will be used.
- Declining: If the trend is declining, the income is not eligible.

Frequent Job Changes:

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

Gaps in Employment:

If the 1003 or other loan documentation suggests there may be a gap in employment, the gap must be addressed. The borrower should provide a signed, written explanation for any employment gaps that exceed 30 days in the most recent 12-month period, or that exceed 60 days in months 13-24.

Recent graduates and borrowers re-entering the workforce after an extended period are allowed.

Bonus and Overtime

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

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

Commission Income

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

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

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

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

Employed by a Relative

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

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

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

Hourly Wages

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

Part-time/Second Job Income

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

Seasonal Income

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

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

Teacher Income

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

Tips and Gratuities

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

Unemployment Compensation

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

Rental Income (9.18.23)

Rental income when qualifying under the following doc types will be documented and calculated in the following manner:

- 12 month bank statements
- WVOE
- 1099
- P&L
- Asset Utilization

Long Term Rental:

- A copy of the lease(s) for the rental property.
- Must provide two (2) months of proof of the receipt of rental income. The deposits must be to a separate bank account. Any deposits in the business bank statements used in the business income analysis are not eligible.
    - 75% of the verified monthly rental income can be used to offset the PITIA of the rental property.
    - If the deposits cannot be validated in a separate account, the full PITIA of the rental unit must be included in the qualifying DTI ratio.

Short Term Rental:

- Property leased on a short-term basis utilizing an on-line service such as Airbnb gross monthly rents can be determined by using a 12-month look back period to account for seasonality.
- Rents for the look back period must be documented with either 12-monthly statements or an annual statement provided by the on-line service. In the event the borrower owns a single rental property, bank statements with deposits clearly identified/sourced as rental income can be substituted. If two or more

rental properties owned, statements from an online service must be provided to associate rents received with the specific property.
  - 75% of the verified monthly rental income can be used to offset the PITIA of the rental property.
- A screen shot of the online listing must show the property(s) activity marketed as a short-term rental

Application of Rental Income:

- The monthly qualifying rental income (as defined above) must be added to the borrower's total monthly income. (The income is not netted against the PITIA of the property.)
- The full amount of the mortgage payment (PITIA) must be included in the borrower's total monthly obligations when calculating the debt-to-income ratio.

Rental income when qualifying under the following doc types will be documented and calculated in the following manner:

- W2
- Self-Employed Tax Returns

Rental Income Requirements:

- Rental income from other properties must be documented with the borrower's most recent signed federal income tax return that includes Schedule E. Leases are required for properties where rental income is being used to qualify and the property was acquired during or subsequent to the most recent tax filing year or the rental property was out of service for an extended period. For commercial properties a copy of the lease or rent roll is required
- Properties with expired leases that have converted to month to month per the terms of the lease will require bank statements for the lesser of 2 months or the time period after the lease expired
- A 25% vacancy factor must be applied to the gross rent used for qualifying. Multiply the gross rent by 75% and subtract the PITIA to arrive at the rental income/loss used for qualifying
- Commercial properties owned on schedule E must be documented with a rent roll and evidence that the primary use and zoning of the property is commercial

Application of Rental Income:

- The monthly qualifying rental income (as defined above) must be added to the borrower's total monthly income. (The income is not netted against the PITIA of the property.)
- The full amount of the mortgage payment (PITIA) must be included in the borrower's total monthly obligations when calculating the debt-to-income ratio.

Departure Residence Rental Income (12.11.23)

If the borrower plans to convert their departure residence to a rental property, the current

PITIA and proposed PITIA must be used in qualifying the borrower. The current PITIA may be offset using 75% of the lower of the actual or market rent. The rental income must be documented with all of the following:

- Market Rent Analysis, FNMA Form 1007
- Copy of a current lease
- Evidence of proof of receipt of damage deposit and first month's rent

The rent is only able to be used to offset the departure residence's PITIA. This means that the maximum cash flow for the property is $0 and no positive rental income can be used to qualify.

Residual Income

Residual Income is the amount of monthly income remaining once a borrower has paid all monthly debt obligations.

Residual Income = Gross Monthly Income minus total monthly debt.

The Minimum Residual Income requirement is $2,500.

- $250 is added for the first dependent
- $125 for each additional dependent.
- A dependent is any person other than the borrower in the household.
- 1003 should reflect all dependents.

Property Eligibility

Appraisals

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

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

Appraisal Requirements

The Appraisal should be dated no more than 120 days prior to the Note Date. After a 120-day period, a new appraisal report is required.

Transferred appraisals accepted with the following documentation:

- Full color copy of appraisal in a PDF format (inclusive of 1007 rent schedules and or 1004d if applicable)

- The appraisal must have been completed ay an Appraisal Management Company (AMC). Appraisal must be less than 120 days old at note date.
- Original lender to provide a signed/dated appraisal transfer letter on their letterhead stating the following:
  - Letter must transfer ownership and rights for the specific appraisal to Champions Funding LLC.
  - Letter to reference the borrower's name and subject property address.
  - Letter must include lender certification that the appraisal complies with Federal, State, and Freddie Mac Appraisal Independence Requirements (AIR).
  - Lender certification that the appraisal was ordered within TRID compliance*.
- Champions Funding LLC must receive confirmation of the borrower's receipt of the appraisal at least 3 business days prior to closing.
- Provide Champions Funding LLC with a copy of the appraisal invoice.
-

*Alternatively, the original lender's 1003, Loan Estimate, and Intent to Proceed may be provided to validate appraisal was ordered within TRID compliance.

Please note that any changes to the report that are needed cannot be requested by Champions Funding LLC and the broker will need to request all updates and provide Champions Funding LLC with the updated appraisal prior to final approval.

Second Appraisal

A Second Appraisal from a Champions Funding approved AMC is required when any of the following conditions exist. When a second appraisal is provided, the transactions "Appraised Value" will be the lower of the twoappraisals. The second appraisal must be from a different appraiser than the first appraisal.

- Loan amount ≥ $1,500,000
- The transaction is a flip as defined in the Property Flipping section of this guide
- As required under the Appraisal Review Products section of this guide
- If appraisal has material deficiencies

Appraisal Review Requirements (10.17.23)

A Desk Appraisal is required on all loan amounts under $1,500,000. The options include the following:

- A Desk Appraisal that must be ordered from a Champions Funding LLC approved AMC.

If the Desk Appraisal reflects a value more than 10% below the appraised value the next option would be either a field review or second appraisal, both must be from a Champions Funding LLC approved AMC.

Any discrepancies found between the documentation provided (i.e., the appraisal and Desk Review) must be addressed. The final appraised value is based on the lowest reported value amongst all the appraisal documents/reviews.

Minimum Square Footage

- Single Family Residence - minimum 600 square feet
- Condominiums – minimum 500 square feet
- 2-4 units – minimum 400 square feet per individual unit

Rural Property

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

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

Personal Property

Any personal property transferred with a property sale must be deemed to have zero transfer value, as indicated by the sales contract and the appraisal. If any value is associated with the personal property, the sales price and appraised value must be reduced by the personal property value for purposes of calculating the LTV/CLTV/HCLTV.

Escrow Holdbacks

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

Ineligible Property Types (6.13.23)

- Vacant land or land development properties
- Rural
- Properties not readily accessible by roads that meet local standards
- Properties not suitable for year-round occupancy regardless of location
- Agricultural properties including farms, ranches, orchards
- Manufactured, Mobile
- Co-op/timeshare
- Condo Cooperative share loans
- Boarding houses or bed/breakfast properties
- Properties with zoning violations
- Dome or geodesic homes
- Assisted living facilities
- Homes on Indian reservations, Indian Leased Land
- Hawaii properties located in lava zones 1 and/or 2

- Houseboats
- Log homes
- Acreage > 10 acres
- No truncating allowed
- Properties used for the cultivation, distribution, manufacture, or sale of marijuana.
- Appraised condition rating of C5, or C6
- Condotels
- Mixed-Use Properties

Declining Market (10.17.23)

If the appraisal report identifies the property as a declining market, maximum LTV/CLTV is 75% for purchases and 70% for all refinances, and the maximum loan amount is limited to $2mm.

Existing Construction (10.17.23)

- If the appraiser reports the existence of minor conditions or deferred maintenance items that do not affect the safety, soundness, or structural integrity of the property, the appraiser may complete the appraisal "as is." These items must be reflected in the appraiser's opinion of value.
- When there are incomplete items or conditions that do affect the safety, soundness, or structural integrity of the property, the property must be appraised subject to completion of the specific alterations or repairs. These items can include a partially completed addition or renovation, or physical deficiencies that could affect the safety, soundness, or structural integrity of the improvements, including but not limited to, cracks or settlement in the foundation, water seepage, active roof leaks, curled or cupped roof shingles, or inadequate electrical service or plumbing fixtures. In such cases, a 1004D Final Inspection is required.
- Permanent and Functioning Heat Source – A permanent heat source is required except for properties located in geographic areas where it is typical not to have heat source and has no adverse effect on marketability.

Properties with C4 Condition Rating (1.13.23)

Properties with a C4 condition rating must meet the following additional requirements.

- Appraisal does not reflect any deferred maintenance that is not cosmetic in nature.
- Appraiser notes that there are no physical deficiencies or adverse conditions.
- Photos do not reveal any physical deficiencies with property or that any part of the home is in disrepair such as graffiti, interior/exterior peeling paint, possible water stains, etc.
- There are no active renovations that have not been completed. Examples include painting, floor installation, etc.

- If any renovations need to be completed, a 1004D will be required, regardless if the appraisal is “subject to” or “as is”.
- There are no manufactured/mobile homes on the property.
- Outbuildings and swimming pools are in good condition and do not appear to be a potential health/safety issue even if given no value.
- If property has an ADU:
    - ADU must be legally zoned,
    - Appraisal must have at least one closed sales comp with an ADU,
    - ADU must be in same or better condition than main dwelling, and
    - Appraisal must be reviewed and C4 condition rating approved by credit risk.

Accessory Units (ADU) (10.17.23)

An accessory unit is typically an additional living area independent of the primary dwelling unit and includes a fully functioning kitchen and bathroom. Some examples may include a living area over a garage and basement units. Whether a property is defined as a one-unit property with an accessory unit or a two-unit property will be based on the characteristics of the property, which may include, but are not limited to, the existence of separate utilities, a unique postal address, and whether the unit is rented. The appraiser is required to provide a description of the accessory unit and analyze any effect it has on the value or marketability of the subject property.

If the property contains an accessory unit, the property is eligible under the following conditions:

- The property is defined as a one-unit property with an accessory unit.
    - Multiple accessory units are not permitted.
- The appraisal report demonstrates that the improvements are typical for the market through an analysis of at least one comparable property with the same use.
- Rental income may be used for the accessory unit subject to the following:
    - Appraisal to reflect zoning compliance is legal
        - Permit is not required to establish zoning compliance
    - Appraisal to include at least one comparable with an accessory unit
    - Refinance – The market rent for the accessory unit should be documented on FNMA Form 1007 and the file must include a copy of the current lease agreement with two (2) months proof of current receipt
    - Purchase
        - Not eligible to use rental income from ADU.

Flip Transactions

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

Flip transactions are subject to the following requirements:

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

A second appraisal is required in the following circumstances:

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

Title Vesting & Ownership

Ownership must be fee simple.

Title must be in the Borrower's name at time of application for refinance transactions and on closing date for all transactions.

Eligible forms of vesting are:

- Individuals
- Joint tenants
- Tenants in common
- Inter Vivos Revocable Trust

Ineligible forms of vesting are:

- Land trusts,
- Blind Trusts
- IRAs

Title vesting in an inter vivos revocable trust is permitted when the requirements set forth in this section are followed. The Fannie Mae requirements should be followed to the extent this section is silent.

The trust must be established by one or more natural persons, solely or jointly. The primary beneficiary of the trust must be the individual(s) establishing the trust. The trust must become effective during the lifetime of the person establishing the trust. If the trust is established

jointly, there may be more than one primary beneficiary as long as the income or assets of at least one of the individuals establishing the trust will be used to qualify for the mortgage.
The Trustee must include either:

- The individual establishing the trust (or at least one of the individuals, if two (2) or more)
- An institutional trustee that customarily performs trust functions in, and authorized to act as trustee under the laws of, the applicable state.

The trustee must have the power to hold the title, and mortgage the property. This must be specified in the trust. One or more of the parties establishing the trust must use personal income or assets to qualify for the mortgage.
The following documentation is required:

- If the trust was created under California law, a full executed Certificate of Trust under Section 18100.5 of the California Probate Code.
- If the trust was created under the laws of a state other than California:
    - Attorney's Opinion Letter from the borrower's attorney or Certificate of Trust verifying all of the following:
        - The trust is revocable.
        - The borrower is the settler of the trust and the beneficiary of the trust.
        - The trust assets may be used as collateral for a loan.
        - The trustee is:
            - Duly qualified under applicable law to serve as the trustee
            - The borrower
            - The settler
            - Fully authorized under the trust documents and applicable law to pledge, or otherwise encumber new assets

Leasehold Properties

Mortgages secured by properties on leasehold estates are acceptable in areas in which this type of property ownership has received market acceptance. The mortgage must be secured by the property improvements and the borrower's leasehold interest in the land.
The leasehold estate and the improvements must constitute real property, be subject to the mortgage lien, and be insured by the lender's title policy.
The leasehold estate and the mortgage must not be impaired by any merger of title between the lessor and lessee. In the event the mortgage is secured by a sublease of a leasehold estate, the documents must provide that a default under the leasehold estate will not by such default result in the termination of the sublease.

Lease Requirements

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

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

Additional Eligibility Requirements

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

- All lease rents, other payments, or assessments that have become due must be paid.
- The borrower must not be in default under any other provision of the lease nor may such a default have been claimed by the lessor.

Option to Purchase Fee Interest

The lease may, but is not required to, include an option for the borrower to purchase the fee interest in the land. If the option is included, the purchase must be at the borrower's sole option, and there can be no time limit within which the option must be exercised. If the option to purchase the fee title is exercised, the mortgage must become a lien on the fee title with the same degree of priority that it had on the leasehold. Both the lease and the option to purchase must be assignable.

STATUS OF PROPERTY IMPROVEMENTS	PURCHASE PRICE OF LAND
Already constructed at the time the lease is executed.	The initial purchase price should be established as the appraised value of the land on the date the lease is executed.
Already constructed at the time the lease is executed, and the lease is tied to an external index, such as the Consumer Price Index (CPI).	The initial land rent should be established as a percentage of the appraised value of the land on the date that the lease is executed. The purchase price may be adjusted annually during the term of the lease to reflect the percentage increase or decrease in the index from the preceding year. Leases may be offered with or without a limitation on increases or decreases in the rent payments.
Will be constructed after the lease is executed	The purchase price of the land should be the lower of the following: • the current appraised value of the land, or • the amount that results when the percentage of the total original appraised value that represented the land alone is applied to the current appraised value of the land and improvements. For example, assume that the total original appraised value for a property was $160,000, and the land alone was valued at $40,000 (thus representing 25% of the total appraised value). If the current appraised value is $225,000, $50,000 for land and $175,000 for improvements, the purchase price would be $50,000 (the current appraised value of the land, because it is less than 25% of $225,000). Note: If the lease is tied to an external index, the initial land value may not exceed 40% of the combined appraised value of the land and improvements.

Limitations on Financed Properties

- There is no maximum number of financed properties
- Champions Funding LLC's exposure may not exceed $5M aggregate with a maximum of five loans for each individual borrower. Exceptions to this policy will be reviewed on a case-by-case basis.

Disaster Areas

The following guidelines apply to properties located in FEMA declared disaster areas, as identified by reviewing the FEMA web site at http://www.fema.gov/news/disasters.fema. In addition, when there is knowledge of an adverse event occurring near and around the subject property location, such as earthquakes, floods, tornadoes, or wildfires, additional due diligence should be used to determine if the disaster guidelines should be followed.

Guidelines for disaster areas should be followed for 120 days from the disaster declaration date as published by FEMA.

Appraisals Completed Prior to Disaster Event

An exterior inspection of the subject property, performed by the original appraiser, if possible, is required.

- The appraiser should provide a statement indicating if the subject property is free from any damage, is in the same condition from the previous inspection, and the marketability and value remain the same.
- Inspection report must include photographs of the subject property and street view.
- Any damage must be repaired and re-inspected prior to purchase

Appraisals Completed After Disaster Event

- Appraiser must comment on the adverse event and certify that there has been no change in the valuation.
- Any existing damage notated from the original report must be repaired and re-inspected prior to purchase.

Condominiums (10.17.23)

Ineligible Projects:

- Multi-family units where a single deed conveys ownership of more than one, or all of the units.
- A common-interest apartment
    - A project in which individuals have an undivided interest in a residential apartment building and land and have the right of exclusive occupancy of a specific apartment unit in the building.
    - The project or building is often owned by several owners as tenants-in-common or by a homeowners' association.
- Fragmented or segmented ownership
    - Ownership is limited to a specific period on a recurring basis (i.e., timeshare, quarter share).
- Any project where the developer (or its affiliates) owns the Common and/or Limited Elements and leases the elements back to the HOA.
- Any project that has non-conforming zoning (can't be rebuilt to current density).
- Any project that requires Private Transfer Fees as a part of the transaction, and those fees do not benefit the association.
- A project subject to the rules and regulations of the US Securities and Exchange Commission.
- Timeshare or projects that restrict the owner's ability to occupy the unit.
- Houseboat project.
- Manufactured home projects.

- Assisted living facilities or any project where the unit owner's contract includes a lifetime commitment from the facility to care for the unit owner regardless of future health or housing needs.
- Projects with non-incidental business operations owned or operated by the homeowners' association (such as a restaurant, spa, health club, etc)
- Projects with units used for "live-work"
- Projects managed and operated as a hotel or motel Any project in need of critical repairs with one of the following characteristics:
  - mold, water intrusions or potentially damaging leaks to the project's building(s); or
  - unfunded repairs costing more than $10,000 per unit undertaken within the next 12 months (does not include repairs made by the unit owner or repairs funded through special assessment).
- Any project with significant deferred maintenance or has received a directive from a regulatory or inspection agency to mark repairs due to unsafe conditions.

General Project Criteria:

All condominium projects must meet the following requirements:

- All common areas and amenities within the project or subject phase must be complete.
- The sustainability, marketability and financial stability of the project must be supported.
- Project must be located in an area where acceptability of condominium ownership is demonstrated. The project must be in compliance with all applicable state or local laws. The homeowners' association must be incorporated in the state where the project is located.
- Condo projects must have acceptable insurance coverage.
- An environmental hazard assessment is required for condo projects if an environmental problem is identified through performance underwriting or due diligence. The solution must be deemed acceptable by Champions Funding LLC
- Projects with pending or threatened litigation are typically ineligible.
- The project must be located on one contiguous parcel of land. The project may be divided by a public street.
- The structures within the project must be within a reasonable distance from each other.
- Common elements and facilities, such as recreational facilities and parking, must be consistent with the nature of the project and competitive in the marketplace.
- The maximum loan concentration by an individual borrower in a single condo development is 10%.
- All loans secured by condominium projects require a completed HOA questionnaire and condominium review except for:
  - Site Condominium
  - Two- to four-unit condominium projects will not require a project review provided the following are met:

        - Project is not ineligible.
        - Evidence of sufficient hazard, flood, and walls-in insurance coverage if the subject unit has individual coverage. If the insurance covers the entire project, it must be sufficient in the event of a total loss.
        - HOA dues to be included in DSCR score if applicable.
- Subject Unit Minimum Requirements: Minimum 500 Square Feet, Full Size Kitchen, minimum of one (1) bedroom.
- Florida Condominiums:
    - For loans secured by a condominium unit in the state of Florida, if the project is over 30 years old (or 25 if within 3 miles of the coast), a structural inspection is required for projects greater than 5 stories. The inspection needs to address items that substantially conform to the definition of a milestone inspection as defined in Florida statute 553.899.
        - Inspection must confirm there are no conditions severe enough to affect the safety, soundness, structural integrity, or habitability of the improvements.
    - Projects with an unacceptable or no inspection are ineligible.
- Special assessment information is to be provided to determine if there is a critical repair. Provide purpose, amount, term, balance, status, and cost per unit.
- Any projects with significant deferred maintenance or have received a directive from a regulatory or inspection agency to mark repairs due to unsafe conditions are not eligible for purchase. Significant deferred maintenance includes deficiencies that meet one or more of the following criteria:
    - Full or partial evacuation of the building to complete repairs is required for more than seven days or an unknown period of time
    - The project has deficiencies, defects, substantial damage, or deferred maintenance that
        - are severe enough to affect the safety, soundness, structural integrity, or habitability of the improvements; **or**
        - has improvements in need of substantial repairs and rehabilitation including many major components; **or**
        - impedes the safe and sound functioning of one or more of the building's major structural or mechanical elements, including but not limited to the foundation, roof, load bearing structures, electrical system, HVAC, or plumbing; **or**
        - has critical repairs with one of the following characteristics:
            - mold, water intrusions or potentially damaging leaks to the project's building(s); or
            - unfunded repairs costing more than $10,000 per unit undertaken within the next 12 months (does not include repairs made by the unit owner or repairs funded through special assessment).

New versus Established Projects

New Projects	Established Projects
• 50% of the total units in the project or subject's phase must be sold and conveyed to the unit owners and at least 50% of the units must be owner occupied. • Project or subject's legal phase along with other development phases must be complete. All common elements in the project or legal phase must be 100% complete. • Project may be subject to additional phasing. • HOA should be in control - project under Developer or Builder control will be considered on a case-by-case basis only.	• 90% of the total units in the project must be sold and conveyed to the unit owners. • 40% of the total units in the project must be owner occupied. • All phases are complete. • HOA must be conveyed to the unit owners – no developer or builder-controlled projects allowed. • All comparable sales may be from within the subject's project if the project is established and consists of 100 or more units. Recent sales of model match units, if available, must be utilized in the appraisal report.

Condominium Project Questionnaire Review

For all condominium projects a Condominium Project Questionnaire Review is required. The completed Condominium Project Questionnaire must reflect compliance with the following requirements:

- Project must meet the definition of an established condo.
- For investment property transactions only, at least 50% of the total units in the project must be conveyed to purchasers as primary or second homes.
- No more than 15% of the total units in a project may be 60 days or more past due on their HOA dues.
- No single entity, the same individual, investor group, partnership, or corporation may own more than 20% of the total units in the project. For projects with 1-4 total units, single entity ownership may not exceed 1 unit. For 5–20-unit projects, single entity ownership may not exceed 2 units.
- No more than 35% of the total square footage of the project may be used for commercial purposes.
- Mortgagee may not be responsible for more than the greater of 6 months or the maximum amount permitted under applicable state law of delinquent HOA dues. For condos in Florida, the first mortgagee's liability for dues assessed prior to its acquisition of title is limited to the lesser of 12 months' assessments or 1% of the original mortgage debt.
- All facilities related to the project must be owned by the unit owners or the HOA cannot be subject to a lease between the unit owners or HOA and another party.

Non-Warrantable Condominiums

Non-warrantable condominiums are allowed. Non-warrantable condo projects can only have one non-warrantable feature per property and require a full review.

See Activator Matrix for LTV restrictions.

Non-Warrantable Condos: Expanded Guidelines	
Characteristic	**Exception Considerations**
Commercial Space	Commercial space in project up to 40%
Completion Status	The project or the subject’s legal phase along with other phases must be complete. All common elements in the project or legal phase must be 100% completed. At least 50% must be sold or under a bona-fide contract.
Delinquent HOA Dues	NO more than 20% of the total units in the project may be 60 days or more past due on the payment of condo/association fees.
Investor Concentration	investor Concentration up to 60%.
HOA Control	The developer may be in control of the condominium association provided the Master Agreement provides for the homeowners to take control upon either a predetermined percentage of unit sales or within a defined time period.
Litigation	Pending litigation may be accepted on a case by case basis. Litigation that involves structural issues, health and safety issues or items that will impact the marketability of the project will not be accepted. AND Potential Damages do not exceed 25% of the HOA reserves, OR Documentation must be provided by the insurance carrier or hte attorney representing the insurance carrier that the insurance carrier has agreed to provide the defense and the association's insurance policy is sufficient to cover the litigation.
Single Entity Ownership	Single entity ownership in project up to 25%
New Projects	The project or the subject's legal phases must be complete. All common areas in the project must be 100% complete. Minimum of 50% of units must be sold or under contract.

Projects Eligible for Limited Review

Limited Review Eligible Transactions-Attached Units in Established Condo Projects	
Occupancy Type	**Maximum LTV/CLTV and HCLTV Ratios**
Primary (Outside of Florida)	85%
Second Home (Outside of Florida)	75%
Primary (Florida)	75%
Second Home (Florida)	70%

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.

Condominium Insurance Requirements

Coverage

- Borrower must carry HO-6 coverage for replacement of such items as flooring, wall covering, cabinets, fixtures, built-ins, and any improvements made to the unit.
- Project meets all Fannie Mae insurance requirements for property, liability, and fidelity coverage.

Fidelity of Employee Dishonesty Insurance for Condominiums

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.

HO-6

If the master or blanket policy does not provide interior unit coverage (replacement of improvements and betterment coverage to cover any improvements that the borrower may have made) the borrower must obtain an HO-6 Policy or “walls-in” coverage. The HO-6 insurance policy must provide coverage in an amount as established by the HO-6 insurer. The maximum deductible amount must be no greater than 5% of the face amount of the policy.

Flood Insurance

- The condominium homeowners’ owners must obtain an NFIP Residential Condominium Building Association Policy (RCBAP) with the following coverage:
  - Building Coverage must equal the lesser of:
    - 100% of the insurable value (replacement cost) of the building, including amounts to repair or replace the foundation and its supporting structure); or
    - The total number of units in the condominium building times $250,000

- Contents Coverage must equal the lesser of:
  - 100% of the insurable value of all contents (including machinery and equipment that are not part of the building) that are owned in common by the association members; or
  - The maximum amount of contents coverage sold by the NFIP for a condominium building

Solar Panels (8.8.23)

Champions Funding LLC will accept properties containing solar panels under the following circumstances.

The ownership and debt financing structures commonly found with solar panels are key to determining whether the panels are third-party owned, personal property of the homeowner, or a fixture to the real estate. Common ownership or financing structures include:

- borrower-owned panels,
- leasing agreements,
- separately financed solar panels (where the panels serve as collateral for debt distinct from any existing mortgage); or
- power purchase agreements

Property with solar panels are eligible for financing. If the borrower is, or will be, the owner of the solar panels (meaning the panels were a cash purchase, were included in the home purchase price, were otherwise financed and repaid in full, or are secured by the existing first mortgage), our standard requirements apply (for example, appraisal, insurance, and title).

Properties with solar panels and other energy efficient items financed with a PACE loan are not eligible if the PACE loan is not paid in full prior to or at closing.

If the solar panels are financed and collateralized – the solar panels are collateral for the separate debt used to purchase the panels, but they are a fixture to the real estate because a UCC fixture filing has been filed for the panels in the real estate records, then the following must be done:

- Obtain and review the credit report, title report, appraisal, and/or UCC fixture filing, promissory note, and related security agreement that reflects the terms of the secured loan.
- Include the debt obligation in the DTI ratio calculation.
- Provided the panels cannot be repossessed for default on the financing terms, appraiser can consider the solar panels in the appraised value of the property.
- Include the solar panels in “other debt” secured by the real estate in the CLTV ratio calculation because a UCC fixture filing is of record in the land records.

- If a UCC fixture filing is in the land records, it must be subordinated to our new mortgage loan. The UCC lien cannot be terminated and refiled after closing.

If the solar panels are financed and collateralized- the solar panels are reported to be collateral for separate non-mortgage debt used to purchase the panels, but do not appear on the title report, then the following must be done:

- Obtain and review the credit report, title report, appraisal, and/or UCC fixture filing, promissory note, and related security agreement that reflects the terms of the secured loan.
- Include the debt obligation in the DTI ratio calculation.
- Appraiser cannot provide contributory value of the solar panels towards the appraised value as they are collateral for another debt.
- Solar panels are not included in the LTV/CLTV ratio calculation because the security agreement/UCC financing statement treat the panels as personal property not affixed to the home.

If the solar panels are leased or covered by a Power Purchase Agreement (PPA):

- Obtain and review copies of the lease or power purchase agreement.
- The monthly lease payment must be included in the DTI ratio calculation (if applicable) unless the lease is structured to:
  - Provide delivery of a specific amount of energy at a fixed payment during a given period, and
  - Have a production guarantee that compensates the borrower on a prorated basis in the event the solar panels fail to meet the energy output required for in the lease for that period.
- Payments under PPA where the payment is calculated solely based on the energy produced may be excluded from the DTI ratio.
- The value of the solar panels cannot be included in the appraised value of the property
- The value of the solar panels must not be included in the LTV ratio calculation, even if a precautionary UCC filing is recorded because the documented lease or power purchase agreement status takes priority.
  - A “precautionary” UCC filing is one that lessors often file to put third parties on notice of their claimed ownership interest in the property described in it.
  - When the only property described in the UCC filing as collateral is the solar equipment covered by the lease or power purchase agreement, and not the home or underlying land, such a precautionary UCC filing is acceptable (and a minor impediment to title), as long as the loan is underwritten in accordance with this topic.
- The value of the solar panels must not be included in other debt secured by real estate in the CLTV ratio calculation because the documented lease or power purchase agreement status takes priority.

- 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 may verify that the owner of the solar panels is not a named loss payee (or named insured) on the property owner's property insurance policy; and
  - In the event of foreclosure, the lender or assignee has the discretion to:
    - Terminate the lease/agreement and require the 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.