CHAMPIONS

FUNDING

ITIN ACCELERATOR

Business Purpose – DSCR ≥ .80

Underwriting Guidelines

CHAMPIONS FUNDING

ITIN ACCELERATOR

Business Purpose - DSCR > = .80

DSCR > = 1.0		Maximum LTV/CLTV		
Credit Score	**Loan Amount**	**Purchase**	**R/T Refinance**	**Cash - Out Refinance**
700	200,000 - 1,000,000	80	80	75
700	< 200,000	75	70	70
660	200,000 - 1,000,000	70	70	70
660	< 200,000	70	70	70
DSCR > = .90 - .99		**Maximum LTV/CLTV**		
Credit Score	**Loan Amount**	**Purchase**	**R/T Refinance**	**Cash - Out Refinance**
660	< = 1,000,000	70	70	70
DSCR > = .80 - .89		**Maximum LTV/CLTV**		
Credit Score	**Loan Amount**	**Purchase**	**R/T Refinance**	**Cash - Out Refinance**
660	< = 1,000,000	65	65	65

Housing History	Credit Event Seasoning	First-Time Homebuyer:
Maximum 1x30x12 between all disclosed mortgages, including those required to be verified per guidelines.	BK|FC|SS|DIL: 48 months seasoning Forb|Mod: 12 months seasoning	First-Time Homebuyer allowed. If FTHB does not have a 12 month verified rental history: Max LTV: 70% Min DSCR: 1.00

Short-Term Rentals
Maximum LTV: Purchase: 75% | Refinance: 70%

Ineligible Locations:	Puerto Rico, Guam, US Virgin Islands, Northern Mariana Islands, and American Samoa are not eligible.	**Subordinate Financing:**	Allowed up to max CLTV above. See Guidelines for restrictions.

General Requirements

Product Type	30-Yr Fixed
Loan Amounts	• Min: $100,000 • Max: $1,000,000
Loan Purpose	Purchase, Rate/Term, and Cash Out
Property Type	**Eligible Properties:** SFR, PUD, Townhome, Condominium, 2-4 Unit **Ineligible Properties:** Manufactured Homes, Leaseholds, Log Homes, Non-Warrantable Condos, Condotels, Rural Properties
Appraisal	Properties with condition rating of 5 or 6 are not acceptable. Desk review required for all loan files not requiring 2nd appraisal. 2nd appraisal or Desk Appraisal must be ordered from Champions Approved AMC. Properties with a C4 condition require additional review. Properties with a C5 or C6 condition rating are ineligible.
Declining Market	If property is located in a declining market as indicated by the appraisal, max LTV is reduced by 5%
Vacant Property	Properties with one or more vacant units are not eligible for refinance.
Acreage	Property up to 10-acres, not meeting the rural definition, eligible
Impounds	Can be waived with LTV ≤ 80%, minimum FICO 700, and 0x30x24 housing
Cash-In-Hand	**Max Cash In Hand:** **LTV ≤ 65%:** Unlimited **LTV > 65%:** $500,000

Underwriting Requirements

Minimum Tradelines	**LTV > 65%:** Minimum of 3 acceptable tradelines each 24 months seasoned. **LTV ≤ 65%:** Minimum of 3 acceptable tradelines: 1 tradeline 24 months seasoned. ***VOR:*** *Rental Management Company VOR or 24 mos. Cancelled checks may be used as 1 tradeline*
Assets	Two months statements required.
Gifts	Gift funds allowed with greater of 15% of purchase price or $50,000 from borrower's own funds. Gift of Equity allowed and must meet gift funds minimum contribution guidelines.
Reserves	Minimum 6 months reserves. Cashout may be used for reserves but borrower must have 3 months reserves of own funds. Gifts cannot be used towards reserves requirement.
Prepayment Penalty	5% of the unpaid principal balance. (Other than the monthly payments required herein, if Borrower prepays this Note in whole or in part before the full term of the pre-payment period, Borrower will pay a Prepayment Premium equal to Five Percent (5%) of any amounts prepaid ("Prepayment Premium").) (Standard Term 3 yrs.) Not allowed Alaska, Delaware, Kansas, Maryland, Michigan, Minnesota, New Mexico, Ohio, and Rhode Island. Permitted ONLY if closing in the name of an Entity: IL & NJ. Pennsylvania - Min Loan Amt $312,159.

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Overview

DSCR 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 DSCR.

Borrowers with a loan under the Investor Program must certify that they understand that consumer protection laws applicable to consumer loans will not apply to their business-purpose loan, including the Truth in Lending Act (15 U.S.C. § 1601 *et seq*.), Real Estate Settlement Procedures Act (12 U.S.C. § 2601 *et seq*.), Gramm-Leach Bliley Act (15 U.S.C. §§ 6802-6809), Secure and Fair Enforcement Mortgage Licensing Act (12 U.S.C. § 5101 et seq.), and Homeowners Protection Act (12 U.S.C. § 4901 *et seq*.

Program Eligibility

Investor: Program geared toward investors (Business Purpose) with alternative qualifications based on cash flow of the property and rental income vs. PITIA. The following loan products are eligible:

Fully Amortizing

- 30 Year Fixed

Qualifying Rate:

Fixed:

Qualify at the Note Rate.

Qualifying Payment:

Qualifying DSCR is based on PITIA payment with the principal and interest payments amortized over the scheduled term.

Loan Amounts (10.16.23)

- Minimum Loan Amount: $100,000
- Maximum Loan Amount: $1,000,000

Minimum FICO

- 660

Maximum LTV/CLTV

- **DSCR ≥ 1.00**
  - Purchase 80%
  - Rate and Term 80%
  - Cash Out 75%
- **DSCR .90 - .99**
  - Purchase 70%
  - Rate and Term 70%
  - Cash Out 70%
- **DSCR .80 - .89**
  - Purchase 65%
  - Rate and Term 65%
  - Cash Out 65%

Interested Party Contributions

3%

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

Non-seller Contributions

Contributions from a real estate agent/broker or mortgage originator may be allowed if the max contribution percentages are not exceeded for total contributions paid on behalf of the borrower and dollar amount does not exceed the dollar amount of non-reoccurring closing costs.

Excessive Contributions

Contributions in excess of the max contribution percentage limits are allowable: however, the excess of the contribution(s) must be subtracted from the purchase price for the calculation of LTV/CLTV.

Not Allowed

Allowances for any repairs, item replacement, condition of property, or recurring closing incentives are not allowed and must be subtracted from the purchase price for the calculation of LTV/CLTV.

Escrow | Impound Accounts

Escrows for taxes and insurance are required on all loans with LTVs greater than 80%, unless otherwise specified by applicable state law.

Additional requirements to waive escrows

Minimum FICO 700

Housing payment(s) 0x30x24

Secondary Financing

New and existing junior liens secured by the subject property and subordinating to the first mortgage is allowed provided the following is met:

- Secondary financing must be institutional.
- The combined loan-to-value of the first and subordinating junior lien(s) may not exceed program thresholds.
- The existing junior lien(s) must have a remaining term of at least five (5) years.
- The terms of the note must provide for regular monthly payments of at least interest only with no provisions for future advances, or wrap-around terms.
- The principal and / or interest payment must be added to the monthly debt to income ratio.
- A copy of the executed note on the subordinating junior lien(s) must be obtained and included in the loan file. The note must be reviewed and approved by the underwriter prior to ordering loan documents.
- A certified copy of the fully executed subordination agreement must be reviewed and approved by the underwriter prior to funding the loan. The subordination agreement must record concurrently with first mortgage / deed of trust.
- Subordinate financing from the borrower's employer may not include a provision requiring payment upon termination

When Secondary or Subordinate financing is a Home Equity Line of Credit the following additional criteria must be met:

- The property being financed should be owner occupied or second / vacation home.

- The calculation of the CLTV should include the total usable Home Equity Line of Credit.
- A copy of the Note for the Home Equity Line of Credit must be obtained to determine the payment based on the interest rate in effect for the Line of Credit Loan on the date that the Loan application is underwritten.
- An executed estoppel agreement is required from the existing line of credit holder. The estoppel agreement must freeze the credit line at the current maximum limit. Negative amortization is not allowed, and the scheduled payments must be sufficient to cover at least the interest due

Age of Documents

- Credit Report: 90 days as of note date
- Consumer Debts: Creditor statement issued within 90 days or less prior to note date.
- Verification of Mortgage/Rent: 30 days as of funding date
- Payoff Demand: 20 days as of funding or such other date as determined by the payoff demand that identifies "valid through" date.
- Bank Statements (Assets): 30 days as of the date of funding from ending date of second statement. Statement may be 45 days and an online transaction history as of the date of funding or final escrow deposit may be used to document an updated balance.
- Preliminary Title: 90 days as of funding date
- Appraisal: 120 days as of funding date. May be extended to 180 days with an appraisal re-certification of value.
- CPL: 30 days from date issued; must be valid through date of funding
- Hazard Insurance:
    - Purchase: Insurance must be in effect at time of closing
    - Refinance: If set to renew within 30 days of closing, renewal must be obtained, or insurance provider must verify in writing that renewal is not available (dated within 30 days of closing) and 110% of current premium must be collected at closing.

Borrower Statement of Occupancy

Borrower must acknowledge that the loan is a business purpose loan 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

Under the Debt Service Coverage documentation option property income is used to qualify the transaction. Debt Service Coverage is available to investors purchasing or refinancing investment properties to hold for business purposes. The borrower is required to sign a Certification of Business Purpose and an Occupancy Certification when consummating closing documents.

State and Federal High-Cost Loans | HPML

High-Cost thresholds and HPML do not apply to Business Purpose loan files.

Prepayment Penalty (1.1.24)

Where permitted by applicable laws and regulations, a prepayment charge can be structured to be assessed for between one (1) and up to five (5) years following the execution date of the note. The prepayment charge will be:

- Equal to 5% of the unpaid principal balance
    - Other than the monthly payments required herein, if Borrower prepays this Note in whole or in part before the full term of the pre-payment period, Borrower will pay a Prepayment Premium equal to Five Percent (5%) of any amounts prepaid ("Prepayment Premium").
- Investment Properties only utilizing the Investor program
- Permitted **ONLY** if closing in the name of an Entity:
    - Illinois
    - New Jersey
- Pennsylvania – Min Loan Amount $312,159
- Not allowed in Alaska, Delaware, Kansas, Maryland, Michigan, Minnesota, New Mexico, Ohio & Rhode Island.

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.

Limitations Champions Funding Exposure

Champions Funding limits the number of open loans with the same borrower at any one time to three (3) or an aggregate amount of $5,000,000, whichever is less for first mortgages only.

Transaction Types

Eligible Transactions

Purchase

A purchase money transaction is a transaction in which the proceeds from the loan are used to finance the acquisition of the property. Transfer(s) of title to the property in the twelve (12) months preceding the listing should be investigated for property flips and / or non-arm's length transactions. Any relationship or concessions between the purchasers and sellers, appraisers or realtors should be fully disclosed in writing, at time of application.

Purchase/Sales Contract

A purchase money transaction must include a fully executed agreement of sale and counteroffer (if applicable) reflecting the following:

- Borrower as the purchaser of the property (borrowers / purchasers reflected as "or assignee" is not allowed);
- Seller as the vested owner on title;
- Correct address of the property;
- Correct sales price;
- Amount of down payment;
- Closing dates;
- Concessions and seller contributions.
- Any addenda as noted to be part of the purchase contract

Note: If only one realtor represents both the buyer and seller a copy of the MLS property listing or a posting from a commercially controlled Web site page is required.

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.

Seller Disclosure

The seller disclosure must be obtained if a requirement of the purchase contract. The disclosure should be reviewed for any significant deferred maintenance and/or structural deficiencies that may require repair or correction prior to closing.

Satisfactory proof of any repairs and/or corrections must be obtained and included in the loan file.

Inspections

Property Inspections

All individuals performing inspections must be appropriately licensed within their field of expertise. Property inspections can be waived if both (i) buyer and seller agree and execute an Addendum concurrently to the execution of the Purchase Contract, and (ii) LTV ≤70%. Otherwise, inspections are required as stipulated in this section.

Termite/Pest Inspection Report

Termite / Pest Inspection Report must be obtained as follows:

- A requirement of the purchase contract (excluding new construction).
- If there is evidence of termite / pest or dry rot indicated in the appraisal report.
- A recommendation in the appraisal report.
- Termite / pest or dry rot damage is visible in the photos.

- Broker Price Opinion indicates that there is visible damage.

The report should be reviewed for any deferred maintenance and / or structural deficiencies that may require repair or correction prior to closing. A Clearance must be obtained on all repairs as required by the Inspection Report.

Roof Certification

Roof Certification must be obtained if ANY of the following apply:

- A requirement of the purchase contract; or
- A recommendation in the appraisal report or Broker Price Opinion; or
- Disrepair is visible in the photos.

Roof certifications must certify that the remaining life of the roof is no less than five (5) years. No guarantee or warranty is necessary.

Well, Septic, Structural, Geological Inspections/Reports

Well, Septic, Structural, Geological Inspections / Reports must be obtained if ANY of the following apply:

- A requirement of the purchase contract; or
- A recommendation in the appraisal report.

The report should be reviewed for any deferred maintenance and / or structural deficiencies that may require repair or correction prior to closing. A Clearance must be obtained on all repairs as required by the Inspection Report.

Third Party Home Inspections

Third Party Home Inspections must be obtained if ANY of the following apply:

- A requirement of the purchase contract; or
- A recommendation in the appraisal report; or
- Disrepair is visible in the photos.

The report should be reviewed for any deferred maintenance and / or structural deficiencies that may require repair or correction prior to closing. A clearance must be obtained on all repairs as required by the inspection report.

HUD REO Purchase

The following requirements must be met for all HUD REO purchase money loans:

- Complete purchase contact / agreement showing all terms of the sale, (i.e.: down payment, amount of first mortgage and any secondary financing) to ensure the purchase is a typical transaction.
- All required inspections and / or disclosures.
- An independent third-party inspection from a licensed contractor or certified building inspector to determine the interior and exterior condition of the property. This inspection may be waived by credit risk if the listed repairs are less than the lower of (i) $5,000 or (ii) 2.5% of the reconciled property value.
- Completion of any and all repairs based on the sales contract and / or inspections. A Certificate of Completion (Form 1004D) including photos of all repairs must be completed by the original appraiser.
- The appraisal report must include interior photos.

For Sale by Owner

Arms-length transactions where there is no realtor commission being paid and no MLS listing require the following:

- The seller must be vested on title for no less than one (1) year;
  - Exception can be made if being sold by a contractor where property has undergone substantial capital improvement;
- Properties in foreclosure are not eligible;
- The buyer and seller cannot waive normal inspections for pest / termite or roof certification *after* these items were stipulated as part of the initial purchase agreement; and
- A copy of the inspection reports when completed.

Rate/Term Refinance

A rate and term refinance transaction involves the repayment of an existing debt from the proceeds of a new mortgage. A rate and term refinance may include the payoff of:

- First mortgage secured by the subject property;
- Junior liens secured by the subject property;
- Reasonable and customary loan costs / fees; or
- Marital settlement buy outs per court decree.

Incidental Cash Out

The borrower may receive incidental cash back up to $1,000.00 or 1.0% of the loan amount, whichever is greater, not to exceed $5,000.00 on Rate/Term refinance transactions.

If the final settlement statement (CD / HUD-1) reflects incidental cash back to the borrower exceeding these limits, the loan will be considered cash out.

Should, at Closing, excessive cash be calculated as going back to the borrowers, but intention is to maintain classification as a R&T Refinance, cash can be contributed at Closing as a contribution to paying down principal. Maximum amount of principal paydown at Closing is limited to the lessor of 2% of the loan amount or $2,500. If there is still too much cash-in-hand, a redraw is appropriate to reduce the loan amount.

Cash-Out Refinance

Cash out is any amount paid out of the settlement proceeds that is not applied to valid liens secured by the subject property and acceptable closing costs. A refinance of a property that is free-and-clear of any existing liens is considered cash out. Any type of IRS / income tax lien or other judgment that is attached to title is considered cash out.

Cash out proceeds can be used towards reserve requirement but borrower must have at least 3 months of reserves from their own funds.

Debt Consolidation

A debt consolidation refinance transaction involves the repayment of an existing debt from the proceeds of a new mortgage. A debt consolidation refinance may include the payoff of:

- First mortgage secured by the subject property;
- Junior liens secured by the subject property;
- Reasonable and customary loan costs / fees;
- Controlled payoff of credit cards, installment loans, etc, unless stated otherwise for a specific program. The final settlement statement (CD / HUD-1) must show the payoff of credit cards, installment loans, etcetera; or
- The transaction would be considered a cash out refinance.

Cash In Hand

Cash-in-hand is defined as the cash borrower will receive as it is shown on the Closing Disclosure or Final HUD. It does not encompass any liens, debts, or other items paid through closing including debt consolidation.

Property Ownership Seasoning

Properties that have sold more than once in the previous twelve (12) months must be prudently analyzed for value discrepancies and to ensure the property has not been involved in a “pyramid or flip” scheme. A “pyramid or flip” scheme is initiated in an effort to inflate property values within a certain market area. Examining recent changes to title on the property and information disclosed on the appraisal report may uncover possible “pyramid or flip” schemes.

• Seasoning requirements may apply on purchase or refinance transactions when determining the current value for properties that have experienced the following;
• Recent and / or frequent change(s) of ownership;
• Refinance where the property is not currently vested in the owner's name; or
• Recent property transfer data (i.e.: REO resale data as shown on the appraisal report) that does not support the appraised value.

Generally, an applicant that is added to title via quit claim must be on title for a minimum of 90 days before applying for a refinance transaction with exceptions for inheritance, divorce, etc. to be reviewed by credit risk.

Property Improvement Seasoning

If the borrower purchased the subject property less than six (6) months ago, the lower of the purchase price or the appraised value must be used for determining the loan-to-value. The only exception to this determination is when the appraised value is higher than the purchase price and improvements have been made to the subject property. In that case, documentation must be provided by a third-party contractor stipulating what improvements have been done and at what cost. Once itemized, such costs may be added to the purchase price to arrive at a property valuation. In no case can such a value exceed that of the appraised value.

Property Value Determination

For first mortgage transactions, the value for determining the loan-to-value ratio is as follows:

Purchase Transaction

Value of the subject property is the lesser of:

• The appraised value
• The purchase price

The appraisal determines the appraised value. The executed purchase agreement or HUD-1 determines the sales price.

Refinance Transaction

- Property purchased twelve (12) months or more
  - If the borrower purchased the subject property, twelve (12) months or more, the appraised value will be used for determining the loan-to-value.
- Property purchased less than twelve months or ownership changed within the previous 12 months
  - If the borrower purchased the subject property less than twelve (12) months or the property changed ownership within the previous twelve (12) months the value for determining the loan-to-value will be the lesser of:
    - Lowest transfer value in the previous twelve (12) months OR
    - Appraised value

Time from Original Purchase	Property is Improved since Purchase, value is based on:	Property is in same Condition as when Purchased, value is based on:
0-6 Months	Purchase Price + Documented Receipts for improvements*	Purchase Price
6-12 Months	Appraised Value (list improvements)	Purchase Price
> 12 Months	Appraised Value	Appraised Value
*In no case can value exceed that of the appraised value *Lender has discretion to determine if the capital improvements warrant an increase to value		

*For additional information refer to Construction-Permanent Financing or Lease Option to Purchase

Properties Listed for Sale

Properties listed for sale within the past six (6) months are not eligible for refinance

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 generally carry a higher risk and must be carefully analyzed for concealed credits, cash paid outside of escrow, double escrows, and other unacceptable lending criteria.

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

- Relationship must be fully disclosed
- An appraisal review product is required
- Borrower to provide a written explanation stating relationship to the seller and reason for purchase
- Borrower to provide a copy of the canceled earnest money check paid to the property seller
- 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

The probate must be settled and closed and the property vested in the borrower's name. If the property is not vested in the borrower's name sufficient documentation clearly showing the chain of title and proof the borrower is vested on title to the subject property must be obtained and approved by underwriting prior to ordering loan documents.

Interfamily Transfers

Interfamily transfers are eligible for financing. The transaction must be a purchase or Rate and Term refinance. Previous recent title transfers and properties in foreclosure are not allowed. Transactions where the relinquishing party / gift donor are residing in the subject property will be considered a straw transaction and not allowed.

Lease with Purchase Option

Lease with purchase option is also known as a land contract or contract for deed. These are not eligible for financing.

Permanent Financing for New Construction

SINGLE FAMILY RESIDENCE (SITE BUILT)

The granting of a long-term mortgage, for the purpose of replacing interim financing for the construction of a new single-family residence, is considered a refinance transaction. A certificate of occupancy is required and final permits must be obtained in areas where required.

VALUE DETERMINATION AND LTV CALCULATION

Land Ownership >12 months

- Cash out as allowed for the program.
- The loan-to-value will be based on the current appraised value (fair market value) for both the land and the improvements.

Land Ownership ≤12 months

- Cash out is not allowed.
- The loan-to-value will be based on the on the lesser of the cost of land / site or a land value analysis from the appraiser, plus cost of the improvements or the Appraised value.

Cost Estimate Requirements are:

Cost of Land

Land value will be established or supported by either the HUD 1 or a land value analysis from the appraiser.

Cost of Unit

The builders cost estimate / breakdown utilized for the construction loan is required or a detailed list of construction costs and receipts for all construction items that are verifiable for the subject improvements.

Borrower Eligibility

This program required that at least one borrower has an ITIN. The borrower must reside in the United States.

If there is an additional borrower, that borrower can have an ITIN or a social security number.

Non-Borrowing Vested Owners

For refinance transactions, non-borrowing vested owners can remain on title with the borrower and retain their percentage of ownership as it is currently recorded. The non-borrowing vested owner will be required to sign the security instrument and be considered title only.

Adding a non-spouse to title, who is not already an owner of record, is not permitted. A non-borrowing vested owner is not required to be on the evidence of insurance or closing protection letter, however, it is acceptable if said non-borrowing vested owner is listed these items.

Non-Borrowing or Non-Titled Spouse

A non-borrowing spouse is the borrower's spouse whose credit and income are not considered for qualifying. A non-borrowing spouse may or may not be currently vested on title to the property.

A non-titled spouse is the borrower's spouse who currently is not vested on title to the property. If the borrower's spouse is to be added to title through the subject transaction, he or she must be included in the qualifying process and execute all required loan documents.

A non-borrowing spouse and a non-titled spouse not being added to title must execute certain documents to evidence that the spouse is relinquishing all rights to the property if so required to perfect the lien under governing law and must also execute a concurrent Quit Claim Deed or Grant Deed.

A non-borrowing spouse can remain on the purchase contract and go on title at the closing of a purchase transaction. Additionally, it is permissible to add a nonborrowing spouse to title on a refinance transaction. A non-borrowing spouse is not required to be on the evidence of insurance or closing protection

First-Time Homebuyer

A First-Time Homebuyer may purchase an investment property utilizing the DSCR program. However, if the borrower is absent a complete rental history for the prior 12 months or is currently not paying any rent, the transaction is limited to:

- 70% maximum LTV/CLTV
- Minimum DSCR score of 1.00

An FTHB is defined as an application where all applicants have never previously owned a home.

Residency

Eligible	• ITIN borrower who resides in the United States is required on all loans • Permanent Resident Alien (see requirements that follow) • Non-Permanent Resident Alien (see requirements that follow) • US Citizen

Ineligible	• Borrowers with diplomatic immunity or otherwise excluded from U.S. jurisdiction. • Borrowers not on title • Foreign Nationals • Borrowers residing in OFAC sanctioned countries *See list below • 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. • Borrowers less than 18 years old • Trusts or Land Trusts (revocable trusts may qualify for ownership vesting only) • Borrowers with any criminal convictions or criminal adjudications, regardless of age, that involves any aspect of fraud, misrepresentation, financial crimes, or are considered acts of moral turpitude, will render the loans ineligible. Pending criminal charges that carry any potential incarceration or involve fraud / misrepresentation or acts of moral turpitude must be resolved (dismissed or exonerated) prior to closing. Felony convictions or felony adjudications regardless of age make the loan ineligible.

ITIN Borrower Documentation

Applicant must provide the following:

- A copy of at least one government issued picture identification (i.e. US State driver's license, US or foreign passport) and,
- A copy of applicant's ITIN letter issued by the Department of Treasury/IRS.

No third party documentation (W2s, 1099s, Tax Returns, etc) can contain a separate social security number

Non-ITIN Borrower Documentation

Applicant must provide the following:

- A copy of at least one government issued picture identification (i.e. US State driver's license, US or foreign passport) and,
- A copy of applicant's social security card, processed SSA-89 results, or 4506c transcripts

Permanent Resident Alien

A person who is not a United States citizen and is legally able to maintain a permanent residency in the United States.

Document Requirements:

- Valid passport or photo identification from their country of residence; and
- Can prove current residence address(s) for the past two (2) years

Non-Permanent Resident Alien

A person who is not a United States citizen and resides in the United States under the terms of a temporary VISA. Non-permanent resident aliens are eligible on an exception basis based on the type of VISA and compensating factors.

Document Requirements:

- Copy of front and back of non-expired VISA

Exclusionary list/OFAC/Diplomatic Immunity

All parties involved on each transaction must be screened through exclusionary lists used by Champions Funding LLC. The exclusionary list policy is applied to all 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/.

OFAC Sanctioned Countries

Borrowers residing in the following countries are not eligible:

Afghanistan	North Korea	Venezuela
Belarus	Russia	Yemen
Cuba	Somalia	
Iran	Sudan	
Iraq	South Sudan	
Libya	Syria	

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
- Revocable Living Trust

Ineligible forms of vesting are:

- Land trusts,
- Blind Trusts
- IRAs

Revocable Living Trust

Title vesting in an inter vivos revocable trust is permitted when the requirements set forth below are followed:

- A complete, legible copy of the Trust or a Certification of Trust;
- A Certification of Trust must contain the following information:
  - The existence and date of the Trust;
  - The Trustor(s) and the current Trustee(s);
  - The powers of the Trustee;
  - Whether the Trust is revocable; and, if revocable, who holds the right to revoke;
  - The names and number of the Trustees required to sign on behalf of the Trust;
  - The Trust identification number, whether that is a Social Security number, or an IRS issued Tax Identification Number;
  - How title to the Trust assets should be taken; and
  - A statement that the Trust has not been revoked, modified, or amended in any manner;
- The Trust must be valid under the laws of the state in which the Trust is

established;
- The Trust must be revocable, meaning the Trust can be changed or canceled at any time for any reason, during a Trustor's lifetime;
- Irrevocable trust is not permitted;
- The Trust must be established by one or more natural persons, solely or jointly, known as a Grantor, Trustor, or Settlor;
- The Trust must become effective during the lifetime of the person(s) establishing the Trust;
- The primary beneficiary of the Trust must be the individual(s) establishing the Trust, known as the Grantee or Trustee;
- The Trust must specify that:
    - The Trustee must have the power to hold the title, and mortgage the property;
    - The beneficiary does not need to grant written consent for the Trust to borrow money. If consent is required, consent has been granted in writing for purposes of the mortgage;
    - There is no unusual risk or impairment to the lenders' rights; and
    - Holding title in Trust does not diminish the lenders' rights as a creditor.

Power of Attorney

A Power of Attorney ("POA") is a legal document giving one person (described below as the "agent" or "attorney in fact") the power to legally bind the principal. Loans with documentation executed by an agent on behalf of the borrower or principal under a POA are eligible, subject to approval by Legal, if all of the following requirements are met:

- Can only be created by a principal / borrower who is 18 years of age or older;
- The principal must also have the mental and legal capacity to enter into a contract;
- Must contain date of execution:
    - Dated such that it is valid and not expired at the time the relevant loan documents are executed;
- Must be is signed by the principal and acknowledged in person before a notary public. See Notary requirements in Section 23.5(D);
- Must comply with any other specific requirements of the state where the POA is notarized;
- Must be complete, which includes any referenced exhibits contained in the POA;
- All pages must be fully legible, including but not limited to, the notary stamp;
- The Agent / Attorney in Fact must be mentally and legally competent (e.g.: age 18 and over);
- The Agent / Attorney in Fact cannot be a licensed Real Estate Agent, Broker, or any party that directly benefits from the closing of the transaction;
- Agent's name on the POA must match the identification(s) provided;
    - If the Agent's name does not match the identification, Agent must provide a notarized Name Affidavit addressing the discrepancy;

- Principal's name on the POA must match the identification(s) provided to Champions Funding LLC;
- If the principal's name does not match the identification exactly, a letter of explanation will be required to address the name discrepancy;
- Principal must authorize the agent to execute the required loan documents on behalf of the borrower;
- Must be specific to the transaction by referencing (i) the subject property by common address or complete legal description; and / or (ii) the transaction with Champions Funding LLC;
    - A Durable Power of Attorney that is not made specific by referencing the property or Champions Funding LLC is not permitted, unless approved by credit risk.
    - Exception to use of a Durable Power of Attorney may be granted when the principal is mentally or physically incapacitated as confirmed in writing by the principal's treating physician submitted on the physician's letterhead bearing their full name, contact information, including phone number, and specialty, or by Court Order;
- Must not contain any blanks;
- No material or significant changes may be made to the POA once it is signed by the principal and notarized;
- Changes to the POA may only be made by the principal with his / her initials next to the correction or change;
- Title must provide written confirmation that the POA is acceptable and will be recorded concurrently with the security instrument, with a copy provided to Champions Funding LLC;
- If there is more than one (1) borrower, they may each provide a separate POA or a joint POA designating one (1) agent to sign on their behalf; and
- A POA terminates upon the principal's death. This means that the agent's authority to handle any financial matters on behalf of the principal when the principal dies.

Vesting in an Entity

Limited Liability Companies, Partnerships, Corporations and S Corporations (each, an "Entity") in accordance with the listed below:

To vest a loan in an Entity, the following requirements must be met:

- Purpose and activities are limited to ownership and management of real property.
- Any business structure is limited to a maximum of 4 owners or members.
- Entity must be domiciled in a US State.
- Any business structure is limited to a maximum of four (4) owners or members.
- Personal guaranties must be provided by all members of the entity. Personal Guaranties forms must be executed by all members when consummating closing documents.

- Each Entity member providing a personal guaranty must complete a Form 1003 or similar credit application indicating clearly that such document is being provided in the capacity of the guarantor. The application of each member providing a personal guaranty and their credit score, and creditworthiness will also be used to determine qualification and pricing.
- No Broker or Loan officer shall suggest or encourage the formation of an Entity for the purpose of obtaining a mortgage loan. Such structures shall be initiated and arranged by the members of the entity.
- Business entity nesting is limited to only one wholly-owned subsidiary that in turn must be owned by individual(s); multiple nesting or ownership by multiple entities, trusts, etc are not acceptable.
- Entity/Guarantor types that are not allowed: Cooperatives, Irrevocable Trusts, IRAs, Non-Profit, and Joint Ventures
- Each Member of the Entity must receive notice of the loan and its terms prior to closing.
- LexisNexis background checks will be pulled on the business entity and all guarantors/borrowers when vesting in a business entity.
- Mortgage lates must be 0x30x6 and no more than 1x30x12 and 0x60x24 when vesting in a business entity.
- ACH form must be fully executed.

<u>The following Entity documentation must be provided:</u>

- Limited Liability Company
    - Entity Articles of Organization, Partnership, and Operating Agreements if any (Operating agreement for the LLC must be provided to confirm acceptability of the LLC, including but not limited to granting authority to the signor to encumber indebtedness on behalf of the entity.)
    - IRS Form SS4 or Federal Tax Identification Number (EIN) issuance letter
    - Certificate of Good Standing
    - Certificate of Foreign Qualification or equivalent when subject property is in a different state than where the business is formed
    - Certificate of Authorization for the person executing all documents on behalf of the Entity
    - Borrowing Certificate (LLC Borrowing Certificate – Single Member or LLC Borrowing Certificate – Multiple Member) found at www.champstpo.com Broker Resources Tab.
    - A Unanimous Written Consent / Board Resolution signed by all members regardless of their percentage of interest (i) authorizing the transaction with Champions Funding, LLC, and (ii) identifying the authorized to sign the loan documents on behalf of and to bind the entity.

            - A Unanimous Written Consent / Board Resolution may be required based on the terms of the Operating Agreement or Bylaws even where ownership is held by one individual.

    - Corporation
        - Filed Certificate/Articles of Incorporation (and all amendments)
        - By-Laws (and all amendments)
        - Certificate of Good Standing (Issued by the Secretary of State (SOS) where the Corporation is incorporated)
        - Certificate of Foreign Qualification or equivalent when subject property is in a different state than where the business is formed
        - IRS Form SS4 or Federal Tax Identification Number (EIN) issuance letter
        - Borrowing Resolution/Corporate Resolution granting authority of signer to enter loan obligation
        - Stockholder/shareholder certificates
        - Receipt of current year franchise tax payment or clear search
        - A Unanimous Written Consent / Board Resolution signed by all members regardless of their percentage of interest (i) authorizing the transaction with Champions Funding, LLC, and (ii) identifying the authorized to sign the loan documents on behalf of and to bind the entity.
            - A Unanimous Written Consent / Board Resolution may be required based on the terms of the Operating Agreement or Bylaws even where ownership is held by one individual.

    - Partnership
        - Filed Partnership Certificate (if a general partnership, filing with the SOS may not be required)
        - Partnership Agreement (and all amendments)
        - Certificate of Good Standing (Issued by the SOS where the partnership is registered)
        - Certificate of Foreign Qualification or equivalent when subject property is in a different state than where the business is formed
        - Stockholder/shareholder certificates
        - IRS Form SS4 or Federal Tax Identification Number (EIN) issuance letter
        - Limited partner consents (where required by partnership agreement).
        - A Unanimous Written Consent / Board Resolution signed by all members regardless of their percentage of interest (i) authorizing the transaction with Champions Funding, LLC, and (ii) identifying the authorized to sign the loan documents on behalf of and to bind the entity.

- A Unanimous Written Consent / Board Resolution may be required based on the terms of the Operating Agreement or Bylaws even where ownership is held by one individual.

<u>Documents required</u>

Documents must be completed and signed as follows:

- Signed as an individual by all members of the Entity:
  - Loan Application (URLA)
    - Completed for each Individual of the Entity.
    - Section labelled "Title will be held in what Name(s)" should be completed with ***only*** the LLC name.
    - Signed by Individuals
  - Personal Guaranty
    - Each individual who is providing a personal guaranty.
    - The guaranty should be executed at loan closing and dated the same date as the Note.
    - Personal Guaranties from community property states (AK, AZ, CA, ID, LA NM, TX, WA, WI) must be accompanied with a Spousal Consent to Pledge.

- Signed by the authorized signer for the entity:
  - Disclosures (Estimated and Final Settlement Statement, Intent to Proceed, Servicing Disclosure, etc.)
  - Any state or federally required settlement statement
  - Note, Deed of Trust/Mortgage and all Riders

<u>Examples of Signature Requirements</u>

[Authorized Signatory] may be replaced by a different title as specified in the Member Consent (e.g., Managing Member, Member, etc.)

<u>Sample 1:</u>

Borrower: JJ Investors, LLC and James Johnson Single Member of LLC: James Johnson

Note, Security Instrument & all Riders:

Signature Block

JJ INVESTORS, LLC a [ ] limited liability company

<u>James Johnson</u>

By: James Johnson

Title: [Authorized Signatory]

Sample 2:

Borrower: JJ Investors, LLC, James Johnson, and Jane Nelson 2 Members of LLC: James Johnson and Jane Nelson

Both Members are Authorized Signatories of LLC

Note, Security Instrument & all Riders:

Signature Block

JJ INVESTORS, LLC a [ ] limited liability company

James Johnson

By: James Johnson

Title: [Authorized Signatory]

and

JJ INVESTORS, LLC a [ ] limited liability company

Jane Nelson

By: Jane Nelson

Title: [Authorized Signatory]

Credit

Credit Reports

A three-bureau in-file report is required for each individual loan applicant obligated for repayment of the loan. Each report should comply with the following:

- The credit bureaus utilized in generating borrowers' credit reports comply with the Fair Credit Reporting Act.
- Appropriate authorization from the Borrower(s) is required prior to obtaining credit.
- Credit supplements must be included in and made a part of the report.
- Historical status for all account / ratings (i.e., R-1, I-2, etc., are acceptable if the meaning is clarified on the report; vague comment such as "satisfactory", "as agreed," etcetera, are not acceptable. (0x30, 0x60, 0x90 is the preferred format).
- Reports should be numbered or have a beginning and ending statement.

Credit Reporting Bureaus

Each credit report must utilize three (3) credit reporting bureaus and credit scores provided by the following bureaus:

Credit Reporting Bureau	Credit Score
Equifax	Beacon 5.0
Experian	FICO (V2)
TransUnion	FICO RISK SCORE CLASSIC 04

Credit History

Credit history is defined as the record of the borrower's payment of credit and voluntary obligations. The credit history is measured on the credit depth, number of obligations, and the demonstrated intent to repay. A borrower with a past history of consistently meeting financial obligations provides reasonable justification that he/she is likely to continue to do so in the future.

Minimum Credit Depth (Tradelines)

A minimum credit depth of three (3) acceptable tradelines aged individually for a minimum of two (2) years is required for LTVs greater than 65%. For LTVs less than or equal to 65%, three (3) tradelines are required but only one (1) of the tradelines needs to be seasoned greater than two (2) years.

Depth is considered to be the months reviewed as provided on an individual credit line item on the consumer's tri-merge credit report.

- Supplemental tradelines (i.e.: utilities, cell phone, taxes, etc) are not considered toward depth under this subsection. However, depth can include a rental history when documented with either (i) a VOR from a Rental Management Company or (ii) cancelled checks.
- Authorized user tradeline are not eligible.
- Tradelines with delinquencies or in deferment can be used if they are seasoned 24 months.

Prior Mortgage History:

If the borrower is vested in title but not on the mortgage, the mortgage payment history can be used towards the borrower's minimum tradelines if the following can be documented for the full 24-month period:

- Mortgage has been paid from a joint account
- Mortgage has been paid from borrower's own account

Prior Rental History:

If the borrower was renting but the lease was in a non-borrowing spouse's name only, the rental payment history can be used towards the borrower's minimum tradelines if the following can be documented for the full 24-month period:

- Rent has been paid from a joint account
- Rent has been paid from borrower's own account

Credit Score Determination

The credit bureau score of the primary wage earner is the credit score assigned to the loan. The primary wage earner, for consumer transactions, is the applicant who is paid the highest salary based on the employment and occupation information documented in the file. Should there be multiple applicants, the lower score between them will be utilized for qualification.

The credit score assigned to the loan is determined as follows:

- If three (3) scores are supplied on the primary wage earner, use the middle of the three (3) scores.
- If two (2) credit scores are supplied on the primary wage earner, use the lower of the two (2) scores.

Example: If three (3) scores are supplied for each borrower on a loan application:
Borrower 1 600, 630, 650 – middle score is 630
Borrower 2 590, 600, 580 – middle score is 590

590 would be used as it is the lowest mid-score of the two borrowers.

A co-borrower without scores or depth can be on the loan application should they contribute zero qualifying income to the file – regardless, a credit pull of this individual is required.

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.

Collections, Charge Offs, and Repossessions

Collections and charge offs may remain unpaid subject to the following circumstances:

- Medical; or
- Two (2) years or more since the date of last activity; or
- When credit report references an original creditor that differs from the current collection agency, the date last active on that original account reflects a date greater than two (2) years ago.

If the applicant and creditor have worked out a payment plan, the account may be added to the DTI and will not be required to be paid off. Payment plan should have been seasoned for a minimum of three (3) months with timely payments confirmed to have been made by creditor / credit supplement / cancelled checks.

Student loans may go into collection, but they do not become uncollectable nor written off. Student debt may remain unpaid consistent with this section and student loan section of guidelines.

If collections, charge offs, or repossessions are required to be paid off, they must be paid off with borrower's own funds and cannot be paid with loan proceeds.

Judgments, Tax Liens, Liens, and Delinquent Child Support

All transactions:

- Pay all judgments / liens.
- Pay any tax lien(s).
- Pay any delinquent child support.

NOTE: All items must be paid with borrower's own funds and cannot be paid off with loan proceeds.

If the Applicant is on a payment plan to settle the tax lien(s), the payoff of the plan will be required unless the borrower does not have the funds. If the Applicant does not have the funds to pay the plan off, the entity who provided the payment plan (IRS, Franchise Tax Board, etc) must subordinate their lien(s) and the payment plan amount will be included in the DTI. Payment plan should have been seasoned for a minimum of three (3) months with timely payments confirmed to have been made by creditor/credit supplement/cancelled checks. Investor approval will be required.

Consumer Credit Counseling

Consumer Credit Counseling assists individuals with financial management of debts in an attempt to avoid further delinquencies or possible bankruptcy. Generally, creditors agree to a lesser repayment under a Credit Counseling plan. A copy of the CCC record of monthly payments covering the look back period is required. The consumer credit grade determination is based on the grade criteria of a Chapter 13 bankruptcy. The CCC must be complete and / or paid in full prior to or through closing.

Time Share Accounts

The payment history of a time-share account is treated the same as consumer credit. Time Share accounts are not treated as mortgages for the sake of a mortgage rating.

Credit Explanations

The borrower is required to provide a written explanation for loans in which the mortgage payment history reflects a 90+ days delinquent status within the prior 12 months. The letter must explain in detail why the delinquency occurred, and a reasonable expectation must be established that the problem has been resolved and not likely to recur.

Bankruptcy

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

Housing History

The mortgage / rental rating for determining the mortgage pricing is determined by evaluating the ratings for properties that the borrower owns and / or rents over the last twelve (12) months.

All reported mortgages on credit should be considered. In the event the Applicant has mortgages that are not reported, file should otherwise contain documentation to evaluate history on:

- The Applicant's / Applicants' primary residence(s);
- Any and all of Applicant's / Applicants' secondary residence(s); and
- The Subject property.

File should also document the above property(ies) plus all other property(ies) owned by the Applicant(s) with a public record search to establish there is not foreclosure action.

Properties Owned Free & Clear

In the absence of a mortgage / rental rating on subject properties owned free and clear, a chain of title covering the last twelve (12) months must be obtained and reviewed by the underwriter for property flipping and / or suspicious or conflicting property transfers.

Private Party/Non-Institutional Lender

Unless serviced by an identifiable third party, a mortgage rating for a lien owned by private party or non-institutional lender will require a mortgage history to be documented with twelve (12) months cancelled checks (front and back) or, if paid by cashiers or postal checks copies of the past twelve (12) months. A VOM from a Private Party may be accepted for non-subject property(ies).

Verification of Rent Payments

A rental payment history covering the last twelve (12) months requires verification by ONE of the following:

- Legible copy of twelve (12) months canceled checks (front and back) or money orders – amount of checks / money orders must be consistent and match the amount of monthly rent reflected on the 1003.
- Verification of Rent (VOR) or a rating from credit reporting agency if from rental agency. A VOR can be accepted from a private party at LTVs of 75% or less.
- Bank statements for the last twelve (12) months which consistently show payment made for rent amount.

NOTE: If borrower rents from relative or seller, a VOR will not be acceptable, cancelled checks or bank statements will be required along with the lease agreement.

Housing Events

Rolling Delinquency

Rolling delinquencies are considered for 30 days late up to six (6) lates are one (1) event. Above thirty (30) days late, each late is an event.

Forbearance/Modification Agreement

A seasoning period of 12 months must have passed since a prior forbearance or modification measured from completion date to application date of new loan.

Foreclosures

A foreclosure is a proceeding by which the creditor, pursuant to the terms of the trust deed or mortgage, may cause the sale of the collateral property in full or partial satisfaction of the debt. Such action typically extinguishes all rights, title, and interest of the owner of the property.

Any real estate loan more than 120-days delinquent will be considered "in foreclosure" unless performing under a written forbearance or modification agreement.

Foreclosures on investment properties, other than the subject property will be considered the only mortgage if there is no mortgage on the borrower's principal residence. In such cases, the mortgage rating on the investment property is considered the mortgage rating and used for determining the borrower's pricing grade.

The look back period for foreclosure is based on the following:

- The date a foreclosure action or forbearance is cured, or
- The applicant is no longer reported 120 days delinquent, or
- The property was sold at a foreclosure sale.

A prior foreclosure requires a 4 year seasoning period from completion to note date.

Short Sales

A short sale is a proceeding whereby a lender allows the current owner of a property to sell that property with that lender accepting a payoff for less than the current unpaid mortgage balance.

A prior short sale requires a 4 year seasoning period from completion to note date.

Deed-In-Lieu

A Deed-in-Lieu ("DIL") of Foreclosure is a proceeding whereby a lender accepts a forfeited title from the current owner in lieu of foreclosure. The unpaid principal balance is typically forgiven once the lender takes title.

A Deed-in-Lieu of foreclosure requires a 4 year seasoning period from completion date to note date.

Delinquent Property Taxes

Delinquent property taxes are not considered in the mortgage rating. All tax and insurance payments will be impounded for future payments.

Past Due Accounts

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

Assets

Source of Funds

The source of funds on all transactions can be from any of the following sources:

- Borrower's own funds;
- Gift from a relative (refer to Gift Funds); or
- Institutional second mortgage.

Contributions by Interested Parties

Any closing costs normally paid by the property purchaser are considered contributions if not paid by the purchaser. Contributions may be paid by the property seller or by any other interested party to the transaction – such as the builder, the developer, the real estate agent, the lender, or any of their affiliates.

On purchase money transactions contributions by interested parties (i.e.: Realtor, Builder, and Seller) are acceptable and may be applied only towards non-recurring closing costs. For first mortgage loans, the maximum contribution by interested parties are as follows:

A maximum percentage of the purchase price may be contributed consistent with the Purchase Money: Maximum Contributions subsection of this text.
A copy of the fully executed sales contract is required. Any excess credit, gift allowance or amount toward recurring closing costs must be deducted from the lower of the sales price or appraised value when calculating the LTV and CLTV.

Items Not Considered Contributions

Items paid by the property seller that are the seller's responsibility – such as real estate sales commissions, charges for pest inspections, fees paid to trustees to release a deed of trust, or costs that the property seller is required to pay under state or local law – are not contributions.

Funds the purchaser receives from a non-participant to the sales transaction – such as the property purchaser's employer or a family member – are not considered contributions, even when they are used to pay closing or settlement costs. For example, funds received from the purchaser's employer through a corporate relocation plan are not considered a contribution. Funds received from a relative of the purchaser would be considered as a gift (not a contribution) and, as such, would have to comply with our requirements regarding gifts.

Verification of Assets/Funds

Funds to close are to be properly verified on purchase-money transactions and where applicable on rate / term refinances. Verification of funds is not required for cash-out refinances.

Source of Funds

- The source of funds for closing should be reflected on the loan application; and
- Verification of acceptable source of funds is required for all funds paid OUTSIDE of escrow / closing, which may be reflected as a credit on the purchase contract, escrow instructions or closing statement.

Documentation of Funds

Where the account(s) serving as the source of funds must be verified, verification of the seasoned funds may include the following:

- Copy of the borrower's bank statement(s) for the most recent two (2) months

Acceptable Assets/Funds to Close

Deposit Accounts

Verification of deposit accounts such as checking, savings, certificate of deposit, and money market accounts may be documented with:

- Copy of the borrower's two most recent bank statements for the account(s) in which the funds for the funds to close are to be withdrawn.

Large Deposits (12.13.23)

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 10% of the loan amount. Underwriter discretion is to be used if a deposit is less than the 10% threshold but appears to be an undisclosed gift or loan or from another outside party. Funds transferred from a foreign account should be fully documented.

Earnest Money and Deposit

Earnest Money and Deposit on Sales Contracts are considered part of the down payment. Earnest money and deposits require verification by one of the following:

- Copy of check (canceled or not canceled) with certified escrow deposit receipt.
- Bank statement showing the check cleared with certified escrow deposit receipt.

Verification of acceptable source of funds on any deposit paid outside of escrow must be satisfactorily documented.

Gift Funds

Gift funds from a family member to assist with the costs to close are permitted on purchase money transaction.

Minimum contribution

Borrower will be required to contribute the larger of 15% of the purchase price or $50,000 of their own documented funds.

Acceptable Donors may include:

- Family members (i.e.: spouse, any type of domestic partnership or union, fiancée, boyfriend / girlfriend, parent, brother, sister, child, grandparent, aunt, uncle, nephew, niece); or
- Non-profit organizations when given pursuant to an established program (case-by-case, require corporate underwriting approval).

Gift Letter – required on all Gifts and must include:

- Reflect the borrower’s name;
- Reflect the Donor's name, address and phone number;
- Reflect the Donor's relationship to the borrower;
- Disclose the source of the gift funds (i.e.: name of depository institution, account number);
- Indicated the dollar amount of the gift;
- Include a statement that the person receiving the gift (i.e.: borrower) is not obligated to repay the dollar amount of the gift;
- Include a statement: “The funds given to <enter borrower(s) name(s)> were not made available to the donor from any person or entity with an interest in the sale of the property including the seller, real estate agent or broker, builder, loan officer, or any entity associated with them.”; and
- Signed and dated by the Donor and Borrower(s).

Receipt of Gift Funds

Evidence (a) that the gift funds have been transferred from the donor’s account to the borrower and (b) that the gift funds came from an acceptable source, must be documented in the file. Acceptable evidence may include:

- Copy of the wire receipt from the donor's account into the borrower's account; OR
- Copy of the certified check from the donor to the borrower; OR
- If the gift funds were deposited directly in escrow, a copy of the check with a certified escrow deposit or wire receipt showing funds were from the donor's account is required; OR
- If the gift funds were deposited directly to the borrower's bank account, a complete bank statement showing the deposited amount and date of deposit with ability to tie the relevant deposit(s) to the Donor.

The documentation evidencing the transfer of funds must match the information on the gift letter (i.e.: the remitter's name (donor), borrower's name, dollar amount, date, name of the depository institution, and account number.

If the documentation for receipt of gift funds does not provide sufficient proof they came from the donor's account, the donor must provide account statements covering the most recent two (2) months to establish his or her ability to provide the gift. In addition, the donor's funds must be seasoned a minimum of 60 days and proof the funds were withdrawn and / or transferred to the borrower's account or to escrow will be required.

Gift of Equity

Gift Equity is allowed provided the following is met:

- Treat as a purchase transaction. Fully executed purchase agreement is required.
- The donor of the gift of equity must be from a family member (i.e.: spouse, any type of domestic partnership or union, fiancée, boyfriend / girlfriend, parent, brother, sister, child, grandparent, aunt, uncle, nephew, niece).
- A gift letter signed and dated by the donor and borrower is required. The gift letter must explain the gift of equity, stating the amount of the gift and that no repayment is expected or implied.
- Donor cannot be a resident of the subject property.
- Proof the existing mortgage lien(s) secured by the subject property is not currently delinquent.
- The borrower must meet the minimum contribution of the greater of 15% of purchase price or $50,000 from borrower's own funds.

A Power of Attorney ("POA") may not be utilized in a transaction where the Donor's interest is being represented by a POA, where said POA is also the beneficiary to the gift.

IRA/Keogh/401k

Only a withdrawal amount may be considered. The loan file must include a copy of the IRA or Keogh Account Statement and proof of liquidation. A deposit receipt showing the funds on deposit in the borrower's account, or the funds deposited into escrow is required.

Business Assets

Borrower must own the business contributing the closing funds. Verification of business deposit accounts such as checking, savings, certificate of deposit, and money market accounts must include the following documentation:

- Copy of the borrower's two (2) most recent bank statement(s) for the account(s) in which the funds for the down payment are to be withdrawn; AND
- Hand-signed Letter of Explanation executed by the majority of the business' ownership describing the potential impact on the business if business funds are used for closing.
- If borrower is not 100% owner of the business, an authorization letter from all other owners of the business is required. Letter must authorize full, unrestricted use of the funds in the account to our borrower.

Borrowed Funds Secured By an Asset

Proceeds from a loan secured by an asset that is owned by the borrower is an acceptable source of funds for closing provided the following criteria is met:

- The loan must be secured by an asset owned by the borrower such as, certificates of deposit, stocks, bonds, real estate other than the subject property, life insurance policies, savings accounts, profit sharing plans, and automobiles.
- The loan must be from an institutional lender and disclosed in the liability section of the loan application at submission to underwriting or revised accordingly.
- The borrower must qualify with the payment of the additional debt, if said additional debt has a required repayment.
- The terms of the debt must be verified by the institution or by a copy of the loan documentation.
- A copy of the executed note reflecting the terms.
- Proof of receipt of the funds must be provided.

Stocks, Bonds, and Other Securities

The file must contain proof that the borrower owns the stocks, bonds, or other securities and must document what they are worth. Proof is required that these securities have been sold if funds are needed to close. Acceptable evidence of ownership and value include:

- A statement from the brokerage company indicating ownership of the security and verifying the sale.
- Verification from the bank that the security has been sold or redeemed. Copies of the sale documents proving ownership and that the transaction is complete.
- To verify government bond income, a photocopy of the bond, copy of the redemption table to verify the value, and proof of liquidation is required. If funds are used to satisfy the borrower's minimum down payment required for the loan-to-value, the documentation must clearly show the borrower owned the source of the funds for at least 90 days.

Sale of Real Property

If the source of funds to close the subject transaction will be proceeds from the sale of real estate owned by the borrower, the amount of the net proceeds must be documented as follows as of the time of initial underwrite:

Pending Sale

If the sale has not closed, a copy of the agreement of sale and estimated Settlement Statement (CD or HUD-1) must be obtained and reviewed by the underwriter to ensure the net proceeds will be sufficient for closing. The final Settlement Statement (CD or HUD-1) showing sufficient funds to close must be provided at closing and included in the loan file.

Closed Sale

If the sale has closed, a copy of the Final Settlement Statement must be provided. Verification that the net proceeds from the sale are either held in escrow / title or on deposit in the borrower's account must be obtained and included in the loan file.

Trust Accounts

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

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

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

The cash value must be verified by a letter from the insurance company and a deposit receipt showing deposit of funds into the borrower's account.

Foreign Assets

Foreign funds must be documented in a domestic account a minimum three (3) business days prior to closing and cannot come from any of the following countries:

Afghanistan	North Korea	Venezuela
Belarus	Russia	Yemen
Cuba	Somalia	
Iran	Sudan	
Iraq	South Sudan	
Libya	Syria	

Foreign deposits will need to be fully documented to validate the source and documentation in a foreign language will need to be translated into English.

Virtual Currency

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

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

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

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

Subordinate Financing

New and existing junior liens secured by the subject property and subordinating to the first mortgage is allowed provided the following is met:

- The combined loan-to-value of the first and subordinating junior lien(s) may not exceed program thresholds.
- The junior lien(s) must be from an institutional lender.
- The existing junior lien(s) must have a remaining term of at least five (5) years.
- The terms of the note must provide for regular monthly payments of at least interest only with no provisions for future advances, or wrap-around terms.
- The principal and / or interest payment must be added to the monthly debt to income ratio.
- A copy of the executed note on the subordinating junior lien(s) must be obtained and included in the loan file. The note must be reviewed and approved by the underwriter prior to ordering loan documents.
- A certified copy of the fully executed subordination agreement must be reviewed and approved by the underwriter prior to funding the loan. The subordination agreement must record concurrently with the first mortgage / deed of trust.

Home Equity Line of Credit

When Secondary or Subordinate financing is a Home Equity Line of Credit the following additional criteria must be met:

- The property being financed should be owner occupied.
- The calculation of the CLTV should include the total usable Home Equity Line of Credit.
- A copy of the Note for the Home Equity Line of Credit must be obtained to determine the payment based on the interest rate in effect for the Line of Credit Loan on the date that the Loan application is underwritten.
- An executed estoppel agreement is required from the existing line of credit holder. The estoppel agreement must freeze the credit line at the current maximum limit.

IRS 1031 Exchange

The 1031 Tax Deferred Exchange (1031 Exchange) feature provides Borrowers with an additional means for obtaining down payment funds. A tax deferred exchange allows a borrower to exchange the “like kind” investment property as long as the acquired property is of greater or equal Value to the relinquished property. A 1031 Exchange allows the borrower to continue the old property investment into the new replacement property for delayed tax purposes. The borrower or any related party / parties to the borrower, such as spouse, ancestors, descendants, siblings, employees, attorney, accountant, investment banker, broker, or real estate agent cannot control the funds from the 1031 Exchange.

Funds received by the borrower from an IRS 1031 Exchange must meet the following criteria:

- The subject property must be a non-owner occupied (investment) property.
- A Qualified Intermediary, who acts on behalf of the borrower in accordance with a specific written contract, must control the funds. The Qualified Intermediary, for a fee, acts to facilitate the deferred exchange by entering into an agreement to exchange the properties. Under this agreement, the Qualified Intermediary sells the relinquished property, acquires the replacement property, and transfers the replacement property to the exchanger (i.e.: borrower).
- The exchange must be an arm’s length transaction in which the parties involved are entirely independent of one another with no reason to collude. Title reports, sales contracts, and sales history must be reviewed on both properties if simultaneous closing to determine property churning is not occurring.
- The property must be reduced to cash in an arm’s length transaction. If a replacement property is not available at the time of the relinquishment, the borrower can sell the subject property and place the proceeds in an escrow account held by the Qualified Intermediary to be applied toward a replacement property when one becomes available.
- The 1031 Exchange cannot be an exchange of a partnership or limited liability corporation interest.
- The name of the taxpayer on the sale of relinquished property must be the same as the acquirer of the exchanged property.
- Relinquished property sale must close before or simultaneously with the property acquired.

1. Simultaneous Closing

The following documentation is required for simultaneous closing:

- Exchange agreement identifying the holder of funds, buyer and home seller, expiration date, agreed upon value, closing date, closing costs, conditions of transfer and repairs, if required; and
- CD / HUD-1 from Sold Property showing proceeds available for the purchase; and

2. Relinquished Property and Purchase of New Property

The following documentation is required for 1031 Exchange transactions occurring prior to the purchase of the new property:

- Exchange agreement; and

- Verification of funds from Qualified Intermediary (exchange holder).

Ineligible Assets

Cash-on-hand
Sweat equity
Gift or grant funds which must be repaid
Down payment assistance programs
Unsecured loans or cash advances
Section 8 Voucher Assistance
Proceeds of SBA/PPP loans or any other government assistance
Trade Equity including 1031 Exchange funds

Reserves

When required under a specific program, lender may require documentation of a Borrower's capital as calculated to be in reserve after the close of the subject transaction.

Reserves are calculated against the monthly payment for the new \ loan as of the first scheduled monthly payment.

Documentation of Reserve amounts should show the dollar amount at or above the required amount of reserves to be in the Applicant's accounts for a period of at least 60 days. Reserves from a departure property (or an owned asset) can be converted to liquid assets and do not need to be seasoned, so long as that asset was owned for greater than 60-days.

Proceeds from a cash out refinance may be used toward reserves but borrower must have 3 months reserves of own funds.

Unacceptable sources of funds include, but are not limited to:

- Credit card advances & any unsecured loan;
- Non-liquid funds, real-estate, or other assets;
- Cyber-currency(ies);
- Funds held in a business or trust name*; and / or
- Gift Funds.
- Funds held in foreign accounts
- 1031 Exchange funds

*Funds held in a business or trust name are acceptable if the borrower(s) represent 100% ownership or are the exclusive trustee(s) / beneficiary(ies).

Income

Debt Service Coverage Ratio (DSCR):

- The DSCR is calculated by taking the gross rents divided by the PITIA of the subject property.
- Short-term rentals are subject to max LTV/CLTV of 75% for purchase and 70% for refinance.
- Use the real estate taxes listed on the title policy or a current real estate tax bill converted into a monthly payment
- Use the insurance premium that is listed on the approved insurance certificate (or other documentation) converted into a monthly payment
- Use the Association fees (if applicable) that is listed as the monthly amount on the appraisal or current homeowner association statement
- Subordinate financing would also be included in the housing payment for DSCR score calculation.

Debt Service Coverage Ratio (DSCR)

Minimum .80 or greater required.

Rent Documentation Requirements & DSCR Calculation:

Occupancy

- Properties cannot be occupied by any of the Borrower/guarantors or their family members.
- Properties with one or more vacant units are not eligible for refinance.

Long-Term Rental

- **Purchase Transactions:**
  - Obtain Appraisal Form 1007/1025 as applicable and use 100% of the gross market rent in DSCR calculation.
  - If the subject property is currently tenant occupied, the 1007 or 1025 must reflect the current monthly rent and the lesser of the annual in-place rent or market rent will be used.
  - Vacant or unleased property is allowed without LTV restrictions
- **Refinance Transactions:**
  - If property has one or more vacant units, the property is ineligible.
  - Obtain both a current lease agreement and Appraisal Form 1007/1025 as applicable. An expired lease agreement that has verbiage that states the lease agreement becomes a month-to-month lease once the initial lease/rental term

expires or per local statutes is still current is allowed with documentation of the most two recent months rent receipt.
  - Gross rent used in the DSCR calculation must come from the lesser of the lease agreement or Appraisal Form 1007/1025 as applicable.

Short-Term Rental

Short-term rentals are properties in which the rental term is less than 12 months, relatively variable in duration (e.g. short weekend, two weeks, several months, etc.), and may not be subject to a traditional lease agreement.

- Short-term rentals are permitted. Proof of receipt for the most recent 12 months is required. Should be 12 month ledger from property manager, AirBnB, VRBO, etc as documentation for actual rents.
- LTV/CLTV is limited to 75% for purchase and 70% for refinances.

Lease Requirements

Leases must:

- Be a third-party lease with no borrower/guarantors, owners of the borrower/guarantor or their immediate family members leasing or occupying the property ("Eligible Tenant)
  - Immediate Family members is defined as those by lineal descendant, adoption or marriage, this includes spouses, siblings, children, parents, or grandparents,
- Be in the name of the borrower/guarantor or their verified property manager, as landlord
- Be executed by both an Eligible Tenant and the borrower/guarantor(s) (as landlord(s))
  - All tenants on leases must be natural persons.
- Have a unit rental rate, and terms consistent with rates and terms prevailing in the local market where the property is located
- Be on a form that is customary to the area the property is located in and comply with all applicable legal requirements in all material respects (including all required disclosures)
- Cover 100% of the square footage of the applicable residential unit
- Rent to own and/or contract for deeds are ineligible

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)

*Site condominiums should be completed on the FNMA Form 1073

Appraisal Requirements

Champions Funding LLC requires a complete original summary appraisal report on each property. Lender does not accept limited appraisal reports or evaluations. Each appraisal must meet FNMA appraisal standards and conform to the Uniform Standards of Professional Appraisal Practice (USPAP) adopted by the Appraisal Standards Board of the Appraisal Foundation. The appraisal must be in computerized and include an original or digital signature from the licensed appraiser. The appraiser must explain any inconsistencies or discrepancies noted in the appraisal report. The appraisal must build to a logical conclusion of value.

Age of Appraisal Report

If the appraisal date is 120 days or more at funding, the original appraiser must provide an Appraisal Update with photos.

If the appraisal date is 180 days or more as of the date of funding, a full new appraisal report completed by a licensed or certified appraiser is required.

Appraisal Updates

If an appraisal update is required, the following conditions must be met:

- The real estate has undergone no significant change since the original appraisal;
- The time period between the effective date of the original appraisal and the effective date of the appraisal is less than six (6) months; and
- The appraiser must address any changes in the market conditions and the status of the subject since the original appraisal and analyze the effect of these changes in arriving at the current value estimate for the subject.

The appraiser must drive by the subject property and provide a 2055 drive by appraisal and documentation with the following:

- New photographs of the subject and comparable sales; and
- Location map.

If the original appraisal cannot be supported by an appraisal update, a new appraisal must be obtained.

Appraisal Report Documentation

Each appraisal report must include as attachments, the exhibits listed below:

Location Map

The location map must locate the subject property and all comparable properties (including sale, rental and listing comparables, as applicable). The map should also disclose the street names of the subject property and comparable sales.

Plat Map

In states where available, a plat map (a survey from the title commitment if applicable) showing the location of the subject property with the dimensions of the lot size should be obtained.

Floor Plan/Building Sketch

Each Appraisal shall include:

- A sketch showing the location of all rooms and exterior doors; and

- Location of interior walls and doors is required if a condition of functional obsolescence is noted.

Exterior Sketch

The exterior sketch of the improvements must include the dimensions and calculations that the appraiser used to determine the size of the subject property. An exterior building sketch is used for detached one-unit properties and end PUD units; an interior perimeter sketch is acceptable for condominium units and interior PUD units. For two-to-four (2-4) unit properties, the sketch must include each unit's layout and entries, indicate the square feet of living area per unit, and the gross building area.

Addenda

The appraiser may determine that the appraisal report must be supplemented by addenda. All addenda must be attached to the appraisal report and incorporated into the report by reference. The appraiser must comment on all forms of obsolescence and specify causes. If repairs are needed, the appraiser must list and estimate the cost to repair.

Statement of Limiting Conditions

- Each form must have an original or digital signature.
- Any additions or deletions made to the Statement of Limiting Conditions Appraisal Certification must be referenced in the "reconciliation" section of the appraisal report.

Photographs

Subject Property Photographs

One set of clear descriptive color photographs of the subject property is required. The photographs must be originals (produced by photography or electronic imaging), must be appropriately identified and must clearly show the completed improvements. The photographs must include:

- A front view of the property;
- A street scene identifying the location of the property and showing neighboring improvements;
- A rear view of the property;
- The appraiser must include additional photographs, if necessary, to show clearly the improvements, amenities, or external influences that have a material impact on value or marketability; and
- Interior photos are required on all properties to generally depict the living areas, kitchen, and bathrooms.

Comparable Sales Photographs

One set of clear color digital photographs of the front view on each of the three (3) closed comparable sales is required. (The property addresses must be indicated.)

*Photos of CO/Smoke detectors or water heater straps are not required as long as the appraiser comments on their presence in the report commentary.

Satisfactory Completion Certificate

For appraisal reports made subject to repairs, alterations, or conditions, or subject to completion in accordance with plans and specifications. A satisfactory completion certificate with photographs must be obtained and included in the loan file. The certification must:

- Be made after completion of the repairs, improvements, alterations, conditions, or construction;
- Clearly state that all conditions or requirements set forth in the original appraisal report of the mortgaged premises have been fulfilled; and
- Be prepared and signed by the original appraiser, if available, or by another qualified approved appraiser.

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.

- The transaction is a flip as defined in the Property Flipping section of this guide (unless otherwise exempt)
- As required under the Appraisal Review Products section of this guide
- If appraisal has material deficiencies

Appraisal Review Requirements

A Desk Appraisal is required on all loans.

- 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 600 square feet
- 2-4 units – minimum 400 square feet per individual unit

Rural Property

Rural properties are not eligible for financing.

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

- Appraisal classifies the property as rural
- Neighborhood is less than 25% built-up
- Located on a gravel/dirt road
- On more than five (5) acres of land

- In a remote or isolated area
- More than one comparable sale exceeds a distance of five (5) miles or more from the subject property

If the property meets one or more of the above characteristics, additional review by credit risk is required to determine if property is considered rural.

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

- 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 use properties (crops, lumber, animals of any kind)
- Working Farms or Ranches (crops, cattle, horse, dairy, etc.)
- Manufactured, Mobile
- Co-op/timeshare
- Condo Cooperative share loans
- Boarding houses or bed/breakfast properties
- Properties with zoning violations
- Dome, Earth berm homes, 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
- Non-Warrantable Condos
- Condotels
- Leaseholds/Community Land Trust
- Mixed-Use
- Non-Residential (Industrial, Commercial, etc.)
- Own your Own Apartments
- Economic life of property is less than term of loan
- Properties with no permanent heat source *except for areas where not required by code

- Properties zoned: Industrial, manufacturing, exclusive farm use (EFU), forest commercial (FC)
- Properties with interim use or properties reported to have a different highest and best use than the present use
- Properties in areas built up "under 25%"
- Refinance of vacant properties
- Refinance of properties listed for sale in the past 6 months prior to application date
- Properties with deferred maintenance, deterioration, or structural damage that may seriously affect the structural integrity or pose a health and safety hazard to the occupant(s). Properties that are condemned or deemed uninhabitable by local municipalities. Properties displaying significant disrepair that it is prohibitive and not feasible to restore the structure to a habitable condition

Declining Market

If property is located in a declining market as indicated by the appraisal, MAX LTV is reduced by 5%

Property Marketability Factors

Properties that have unique physical features are physically deteriorated or exposed to value and marketability issues may require credit risk approval and may result in a reduction of value or declination of the loan.

Examples of marketability factors that could adversely affect the acceptability of the property are:

- Atypical physical characteristics and construction type / quality
- Economic changes in market conditions
- Environmental risk hazards (toxic)
- External or functional obsolescence
- Geological conditions – Properties currently or potentially suffering from significant site distress or erosion due to local geological conditions
- Inadequate ingress and egress
- Public utilities or services – Properties that lack typical city or county services and necessary utilities, including water electricity, heating and sewage disposal
- Properties in remote locations
- Unique properties that do not conform to the local market and require longer marketing times such as over-improved or super adequacy properties
- Zoning changes – Identified recent or pending zoning changes which would have a short-term negative or de-stabilizing impact on residential market values

Unique Properties

Unique Property Features

A dwelling with an unusual layout, peculiar floor plan or inadequate equipment or amenities usually has limited market appeal and should not be considered for maximum financing. The appraiser should comment on any functional obsolescence, negative impact on the marketability, or buyer resistance as a result of the unique property features.

Unique Properties

- Unique Properties require credit risk review with the following stipulations:
  - Appraisal Field Review is required, regardless of LTV;
  - Unique properties must be compared with other unique properties in the area;
  - The property must be in average or better condition;
  - The property must have adequate heating and water sources;
  - The appraised value must be based on a marketing time of no more than six (6) months; and
  - The property must meet all other property requirements and may be subject to an LTV reduction or declination.

Environmental Hazards

Any known environmental hazard in or on the subject property, or in the vicinity of the subject property must be disclosed to the appraiser. The appraiser must consider any influence the hazard may have on the property's value and marketability. These hazards may be found on the sales contract / offer to purchase, or communicated by the seller of the property, the buyer, the real estate broker, or local governments. Upon discovery of any hazard, the appraiser must review for any suggested corrective action.

Radon Certification

- Must be completed by a licensed or certified inspector
- Must indicate levels within acceptable tolerance

Toxic Waste

- Properties within one (1) mile of a Federal Super Fund site will require a Phase I Report. Based on the results, further analysis or reports may be required.
- Properties that abut or are adjacent to a known toxic site will require full disclosure and may require further analysis or a Phase I report.

Building Permits

Acceptable building permits will be required on all conversions or additions to living areas. Square footage, which can be verified through public records, is acceptable and will not require further documentation. Any unpermitted area must be completed in a workman like manner. The appraisal must include a cost to cure, and the unpermitted area should not be included in the Gross Living Area (GLA) calculation.

In areas where permits are not required, the appraiser must disclose when the work was originally completed and comment if the work was done in a workmanlike manner. The appraiser must also comment on the type of conversion or addition and if the improvements are functional and conforming to the original structure.

Outbuildings

All outbuildings (i.e.: barns, stables, arenas, workshops, guesthouses, and etc) must be described in detail on the appraisal report. Value for outbuildings may be considered if:

- Legal use and affixed to a permanent foundation;
- Not being used for commercial or business purposes that would conflict with the residential use of the property; and

- Typical for the area as evidenced by comparable sales with value given for the same or similar type of outbuildings.

If outbuildings are not typical for the area and supported by comparable sales with similar outbuildings, no value will be given.

Subject Property

The subject property section of the appraisal report must include the following:

- Identify and describe the location of the subject property. The appraisal must identify the subject property by its complete property address and legal description. When the legal description is lengthy, the appraiser may attach the full description as an addendum to the appraisal report, or may provide the subject's tax ID parcel number;
- Provide information about property taxes and special assessments;
- Indicate the occupancy status of the property;
- Describe the property rights appraised;
- Summarize financing data and sales concessions; and
- Identify the borrower, the current owner, and the appraiser.

Neighborhood Analysis

The neighborhood section of the appraisal report must contain an accurate description of the subject neighborhood and the factors that influence market value and marketability in the neighborhood. The actual neighborhood area being considered should be clearly defined using street names and other recognizable boundaries. The sales price of comparable properties in the identified area should reflect positive and negative influences in the neighborhood. The analysis should consider the effect of social, economic, governmental, and environmental forces on the property values. The information presented in the neighborhood description must be consistent with, and supported by, the conclusions reached by the appraiser throughout the appraisal report.

Present Land Use

The present land use, the predominant occupancy composition, and the likelihood that either will change must be analyzed to determine whether a neighborhood is undergoing transition. The appraiser must comment on any change in land use. (Properties with interim use or properties reported to have a different highest and best use than the present use are not eligible for financing.)

The relative percentages of developed land should be shown; underdeveloped land should be shown as vacant. Any unusual situations or types of land use should be mentioned in the comment section. The total types of land use must equal 100%

Demand, Supply, Marketing Time

When marketing time for a particular area is greater than six (6) months, the appraisal must contain comments on the reason for the extended marketing period and its effect on the value of the property.

Neighborhood Description and Market Trends

Any increase or decline in the market must be detailed. The marketing time of the subject must reflect the current trend for the area and the subject property. Marketing time over six (6) months must be explained in detail to determine the effect on the marketability.

Site

Site Value

The estimated site value must be included for all detached properties. If the appraiser's estimate of the site value is one that is not typical for a comparable residential property in the subject property's market area, the appraisal must include comments on how the variance affects the marketability of the subject property.

Multiple Parcels

A property that consists of two or more parcels of land with one legal description reflected on the title policy is acceptable collateral. The appraised value must be based on all parcels of land. All existing parcels must be contiguous and encumbered by the subject loan. The appraisal should include comparable sales similar to the subject property. Additional parcels with no improvements must be valued as excess land only. The mortgage must include all parcels as collateral.

Site Area Maximum Acreage

Maximum acreage is limited to 10 acres. Appraisal must provide a value for the entire size of the property. Comparable sales should support larger parcels as common for the area.

Site Utilities

The minimum requirements for water sources, sewers, and electricity may include:

- Public water, private wells, shared wells with a recorded agreement, or common stock in a private water company with a recorded water stock certificate.
    - Cistern water is acceptable on a case-by-case basis. The appraiser must provide recent comparable sales of properties that use cistern water that are in close proximity to the subject property. An internal appraisal review is required.
- Public sewer or private septic systems (cesspools).
    - Private septic systems (cesspools) must be typical for the area and supported by comparable sales with similar septic systems.
- Public electricity only. Properties relying on solar systems or generators for electricity except as backup systems are not allowed.

Street Surfaces and Private Roads

Publicly maintained paved or all-weather dirt roads or a private road access is acceptable, if common for the area. A road maintenance agreement is required for private road access for properties not located in a PUD. Charges for maintenance of private roads are considered assessments and should be included in the debt-to-income calculation. If no Road Agreement is in place, provide a copy of the last road clearing / maintenance bill. If the subject is on an all-weather dirt road, similar comparable sales must be utilized to support marketability and value. The presence of sidewalks, curbs, gutters, streetlights and alleys depends on the local codes and regulations of the city or local municipality. If such improvements are required in the community, they must be present.

Ingress and Egress

A property that is land locked is not allowed and private road access must have easements of record allowing access to and from the subject property to a public street (i.e.: ingress and egress) and must be insurable by the title insurance company.

Zoning Classification

The appraisal report must indicate the specific zoning classification for the subject property and a general statement to describe what the zoning allows (e.g.: “R-1 single-family” vs. “residential”, R-2 “two-family, "C1-commercial", etcetera). For areas in which there are no local zoning, the report should indicate so.

The appraisal report should contain a statement indicating whether the site’s improvements represent a legal use of land. Loans secured by property with improvements that are not legally permissible are not acceptable.

A one-to-four (1-4) unit property that represents a legal, but non-conforming use of the land must include the appraiser’s analysis regarding any adverse effect(s) that the non-conforming use has on the property’s value and marketability and comment on the highest and best use. Properties with interim use or a highest and best other than residential are not acceptable. A 100% rebuild letter from the local municipality is required. For a unit located in a condominium or attached PUD project the rebuild letter must indicate that the project may be rebuilt to its current use and density with no restrictions. In instances where a property’s land value exceeds the loan amount sought by 120%, a rebuild letter is not required.

Improvements

Over-Improved or Super-Adequate Properties

Properties that are considered over-improved or super-adequate for the neighborhood require a detailed explanation from the appraiser. The appraiser should attempt to utilize recent sales of similar properties (over-improved or super-adequacy) from the subject's market area, if available. If recent sales of such properties are not available, the appraiser should utilize recent sales that are typical for the subject's market area, and make the appropriate adjustments for functional obsolescence based on the market’s reaction to the property.

Effective Age vs Actual Age

The relationship of the effective age to actual age is a good indicator of property condition. A property that has an effective age higher than the actual age probably has not been well maintained. In such cases, the condition of the property must be carefully analyzed.

Heat Source

The subject property must have an acceptable heating source based on local health and safety codes. A permanent ventilated source of heating is required except in areas where heating is not required.

Parking

Adequate off-street parking must be available for the subject property. The property should provide adequate parking that is typical for the neighborhood. Off-street parking for one car is considered acceptable, unless the property is in an area where no off-street parking is typical.

Above Grade Room Count

The appraiser must be consistent when calculating the above grade room count and square footage of the gross living areas that are above grade. For a condominium, the appraiser should use the interior perimeter unit dimensions to calculate gross living area. In all other instances, the exterior building dimensions should be used. Only finished above grade areas should be counted; garages and basements should not be included.

A room that is not included in the above grade room count may add substantial value to the property. Therefore, the appraiser should report the basement area and other partially below grade areas, including the room count, separately and make appropriate adjustments for them in the Sales Comparison Analysis Section.

Cost Approach

The cost approach to value is not required. However, where completed, all forms of depreciation applicable are required and must be explained.

Site Value

Where applicable, the estimated site value should include the cost approach for all detached properties. If the site value is more than 50% of the total value, the appraiser should include comments as to whether or not this is common for the subject property market area. If the appraiser's estimate of the site value is one that is not typical for a comparable residential property in the subject property's market area, the appraisal must include comments on how the variance affects the marketability of the subject property.

Remaining Economic Life

The estimated remaining economic life of the property must be included, when the Cost Approach is completed. The estimated remaining economic life of the subject property must be no less than the term of the new loan.

Sales Comparison

At least three (3) verified, closed sales of comparable properties must be analyzed in the appraisal report, with adjustments made for significant differences between the comparable sales and the subject property.

Sales Comparison Selection Criteria

The three comparable sales listed in the report must meet the following criteria:

- Must be similar in property characteristics including square footage, room count (bedroom / bath count), design / appeal, construction, condition, amenities, site, etcetera.
- Urban and suburban properties must be measured in city blocks.
- Must be in close proximity to the subject property. Outlying suburban and rural properties generally should not be more than five (5) miles from the subject property without adequate explanation from the appraiser.
- Be recently sold (usually no more than six (6) months before the date of the appraisal). Multiple Listings from the market area are also recommended in areas where current closed sales may be difficult to obtain. The use of an older comparable sale must be justified by comments in the appraisal report. The use of comparable sales over twelve (12) months old must include an extensive explanation from the appraiser and will require credit risk review.
- The comparable sales prices should bracket the estimated value of the subject property.
- If adverse conditions affect the subject property, at least the same type of adverse condition must affect two (2) of the comparable sales.

In areas where there are certain style / types of properties that may be typical for the area such as A-frame home, split level homes, daylight basements, etc, the comparables utilized must be similar, in the market area, and represent the current market conditions for the time of sale.

Adjustments to Comparable Sales

Each comparable sale must be analyzed for similarities and differences between it and the subject property. The appraisal must include appropriate adjustments for differences and indicate the dollar amount of the adjustments. Comparable sales must be adjusted to the subject property. Time adjustments must reflect the time that elapsed between the contract date for the comparable sale and the effective date of the appraisal of the subject property. Unsupported time adjustments are not acceptable.

Excessive and Multiple Adjustments

Excessive and multiple adjustments could indicate that the comparables chosen were not suitable for accurately evaluating the property. The appraiser must "bracket" the comparables so that the property can be analyzed using both higher and lower priced homes.

Appraiser's Comments

The appraiser's comments should reflect the reconciliation of the adjusted or indicated values for the comparable sales and identify which were given the most weight in arriving at the indicated value for the subject property.

Any additional features, necessary repairs or modernization, or physical, functional or external inadequacies must be reported in the comment sections of the appraisal report.

ENVIRONMENTAL HAZARDS

The appraiser must comment on any effects of environmental hazards discovered on or near the site, the impact on marketability or value and an estimate of the scope and / or cost if known to cure.

ADDITIONS OR ALTERATIONS

If the appraisal notes that additions or alterations were made without permits, the comment section should contain comments on the quality and appearance of the work.

ENVIRONMENTAL / ENERGY

The appraiser should use this section to note special energy-efficient items and adverse environmental conditions.

Property Condition

The appraiser must report the condition of the improvement n factual terms. Items rated less than average (inferior) in competing properties of the subject's market area generally may result in buyer resistance. The appraiser must comment on these items, the reasons for such ratings and how they affect the marketability and value of the subject property. Any property condition rating that is less than average must be properly conditioned and brought to average or better condition prior to closing. C5 and C6 properties are ineligible.

Work In Progress

Any work in progress must be completed and a Satisfactory Certificate of Completion (FNMA Form 1004D) with photos must be included in the loan file.

A property with ongoing or recently completed work may be liable to a mechanic's lien(s); an Extended Title Policy specifically covering potential mechanic's liens will be required.

Deferred Maintenance

A property may be rejected as security for a loan if signs of deferred maintenance exist on the appraisal.

Properties that include certain appraiser conditions, subject to items, or deferred maintenance must be described in detail. The appraiser must include the cost to cure to determine the nature of the repairs. The appraiser's comments should address any threat to an occupant's health, safety and habitability.

Licensed contractor bids are required for all repair items. All repair items must be completed and a Satisfactory Completion Certificate (FNMA Form 1004D) with photos must be obtained.
A property that is being used to store old cars, auto parts, appliances, debris scattered throughout the site, excessive amount of trash, unkempt yard with overgrown trees, shrubs and weeds, should be cleared. A Satisfactory Certificate of Completion (FNMA Form 1004D) with photos must be obtained.

In the event work is completed by a third-party contractor, appropriately licensed to complete the work required, a signed statement of work and pictures showing the completed work to document the satisfaction may be considered. File should document the contractor is paid for said work or can pay through the Closing.

Minor or Cosmetic Deferred Maintenance

Deferred maintenance items that are considered minor and cosmetic and do not affect the safety, structural integrity, mechanical systems, or habitability of the improvement may not need to be repaired. Minor cosmetic items may include as a non-exhaustive list of examples: interior or exterior painting, worn carpet, worn linoleum, minor patching, replacement of fixtures, minor clean up items, or minor landscaping. While these items are not required to be cured or repaired, a cost to cure must be established on the appraisal or with a contractor's bid.

The total cost of the repairs may not exceed the greater of $5,000 or 3.0% of the property's value or they may need to be completed.
*C4 properties may require minor and/or cosmetic deferred maintenance to be completed.

Health and Safety Issues

All items that have been identified as potential health and safety issues by the Appraiser or Champions Funding LLC must be satisfactorily addressed or resolved. A Satisfactory Certificate of Completion (FNMA Form 1004) including photos of the repaired items prior to closing is required.

Health and safety issues may include as a non-exhaustive list of examples; a broken window, empty pool without appropriate fencing, security bars not equipped with safety release latches, upper-level doors with no balcony, missing railings, broken steps, missing handrails on steps / stairs consisting of six (6) or more steps, major electrical, and plumbing repairs.

SECURITY BARS

For health and safety reasons, a property with security bars on the windows and/or doors should be equipped with safety release latches. The appraiser must comment whether or not the security bars have safety release latches. A property that has a minimum of three (3) unobstructed exits will not require safety release latches on the security bars, unless required by the local municipality.

Structural Deferred Maintenance

Structural items are not covered in the cosmetic rule. Structural items can be roofing, internal plumbing, electrical, or anything that affects the "bone structure" of the house. Items like termite damage, wood rot, roof leaks, broken windows, door damage, gross ceiling or wall damage, unstable or non-level floors, foundation problems, basement leaks, or major exterior wall problems are further examples of structural deferred maintenance.

Properties with structural damage will not be acceptable unless repaired. Structural concerns require a satisfactory structural report. The repair items must be corrected and a Satisfactory Certificate of Completion (FNMA Form 1004D) including photos of the repaired items prior to closing is required.

In the event work is completed by a third-party contractor, appropriately licensed to complete the work required, a signed statement of work and pictures showing the completed work to document the satisfaction may be considered. File should document the contractor is paid for said work or can pay through the Closing.

Reconciliation of Value

The reconciliation must contain any conditions of the appraisal on which the final estimate of value is based. The rationale in the final reconciliation must be consistent with the comments, conclusions and assumptions stated throughout the appraisal report. The appraiser must indicate if the appraisal is made “as-is” or “subject-to” repairs or completion.

The report must state that the current FNMA form 1004B is attached and must contain the:

- Date of the value estimate;
- Estimate of market value;
- Appraiser’s name and original or digital signature;
- Appraiser’s state certification or license number; and
- A statement that the appraisal was prepared in accordance with the requirements of Title XI of the Financial Institutions, Reform, Recovery, and Enforcement Act (FIRREA) of 1989, as amended (12 U.S.C. 3331 et seq.).

Value Conclusion

The value conclusion must be well supported and documented. All approaches to value must be reconciled except on properties where certain approaches to value may not be applicable.

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 contract 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

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 prior to purchase contract date.

Greater than 20% increase in sales price if seller acquired the property in the past 91-180 days prior to purchase contract date.

The appraisal must include the following:

- Comparison of the previous purchase price with the current purchase price
- Changes in market conditions
- Any improvements made to the property since its previous purchase

*****Borrower cannot be charged for the second appraisal.*****

Additional appraisal requirement does not apply to sellers who are:

The additional appraisal required under "flipping" of this subsection shall not apply to consumer's acquisition of property:

- From a local, state or federal government agency;
- From a person who acquired title to the property through foreclosure, deed-in-lieu of foreclosure, or other similar judicial or non-judicial procedure as a result of the person's exercise of rights as the holder of a defaulted mortgage loan;
- From a non-profit entity as part of a local, state, or federal government program under which the non-profit entity is permitted to acquire title to single family properties for resale from a seller who acquired title to the property through the process of foreclosure, deed-in- lieu of foreclosure, or other similar judicial or non-judicial procedure;

- From a person who acquired title to the property by inheritance or pursuant to a court order of dissolution of marriage, civil union, or domestic partnership, or of partition of joint or marital assets to which the seller was a party;
- From an employer or relocation agency in connection with the relocation of an employee;
- From a service member, as defined in 50 U.S.C. Appx 511(1), who received a deployment or permanent change of station order after the service member purchased the property;
- Located in an area designated by the President as a federal disaster area, if and for as long as the Federal financial institutions regulatory agencies, as defined in 12 U.S.C. 3350(6), waive the requirements in Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, as amended (12 U.S.C. 3331 et seq.), and any implementing regulations in that area; or
- Located in a rural county, as defined in 12 CFR 1026.35(b)(2)(iv)(A).

Property Insurance

Property insurance for loans 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.

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 property 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.

Additional requirements apply to properties with solar panels that are leased from or owned by a third party under a power purchase agreement or other similar arrangement.

The maximum deductible is 5%.

The insurance coverage should reflect one of the following:

- 100% of the insurable value of the improvements, as established by the property insurer (including guaranteed replacement, if applicable); or
- 100% of the Total Estimate of Cost-New per the appraiser; or
- The unpaid principal balance of the mortgage, as long as it at least 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.

Rent Loss Insurance

Rent loss insurance covering a minimum of 6 months of the rental figure used to qualify is required for the subject property on all DSCR transactions.

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

General Project Criteria

- Project must meet FNMA warrantable project requirements.
- Project has been created and exists in full compliance with applicable local jurisdiction, State and all other applicable laws and regulations
- Project meets all FNMA Insurance requirements for property, liability and fidelity coverage
- Confirmation the project documents do not give a unit owner or any other party priority over the rights of the 1st mortgagee
- Unit must be at least 600 sq ft.
- 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.

Ineligible Projects

- Any projects with significant deferred maintenance or have received a directive from a regulatory or inspection agency to mark repairs due to unsafe conditions. 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
        - is severe enough to affect the safety, soundness, structural integrity, or habitability of the improvements;
        - the improvements need 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.
- Any condo project identified by FNMA as "Unavailable" by Condo Project Manager(CPM), including projects with an annual budget allocating less than 10% to replacement reserves.
- 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 (condotel)
- Projects with mandatory memberships
- New Project where less than 50% of total units have been sold or are under bona-fide contract.
- Project in litigation, arbitration, mediation or other dispute regarding safety, soundness or habitability.

Projects Eligible for Limited Review (7.26.23)

Limited Review Eligible Transactions-Attached Units in Established Condo Projects	
Occupancy Type	**Max LTV/CLTV**
Investment (Outside of Florida)	75%
Investment (Florida)	70%

Projects Eligible for Review Waiver

- 2–4-unit projects
- Detached units in a new or established condo project

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 (7.26.23)

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 housing payment and/or 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.