CHAMPIONS
FUNDING

AMBASSADOR

Business Purpose - (Foreign National) DSCR > = .75 | No Ratio DSCR < .75

Underwriting Guideline

CHAMPIONS FUNDING

AMBASSADOR

Business Purpose - DSCR ≥ .75 | No Ratio

DSCR | No Ratio			Maximum LTV/CLTV		
DSCR	**Min. Credit Score**	**Max. Loan Amount**	**Purchase**	**Rate/Term Refi**	**Cash Out Refi**
≥ 1.00	680	1,000,000	70	65	65
		1,500,000	70	60	60
	Foreign Credit	1,000,000	70	65	65
		1,500,000	70	60	60
DSCR	**Min. Credit Score**	**Max. Loan Amount**	**Purchase**	**Rate/Term Refi**	**Cash Out Refi**
.75 - .99	680	1,000,000	65	60	60
		1,500,000	65	N/A	N/A
	Foreign Credit	1,000,000	65	60	60
		1,500,000	65	N/A	N/A
DSCR	**Min. Credit Score**	**Max. Loan Amount**	**Purchase**	**Rate/Term Refi**	**Cash Out Refi**
No Ratio (< .75)	680	1,000,000	60	60	60
		1,500,000	60	N/A	N/A
	Foreign Credit	1,000,000	60	60	60
		1,500,000	60	N/A	N/A

Credit Event Seasoning	Credit Requirements	
BK/FC/SS/DIL: ≥ 36 Months **Forbearance, Mod or Deferral: See Guidelines**	**US Credit:** **• Min FICO 680 with** **• 2 tradelines reporting for 24 months or** **• 3 reporting for 12 months**	**Foreign Credit:** **• Minimum 2 credit reference letters (see guidelines for requirements)**

Housing History	Unleased/Vacant Properties
0x30x12, If documented	LTV reduction not required.

Ineligible locations
Puerto Rico, Guam, & the US Virgin Islands not eligible

General Requirements		
Product Type	30-Yr Fixed, 5/6 ARM, 7/6 ARM	
First Time Investor	Allowed	
Interest Only	Eligible	
Loan Amounts	Min: 150,000	Max: 1,500,000
Loan Purpose	Purchase, Rate/Term, and Cash Out	
Eligiblity Restrictions	Citizens and individuals from OFAC sanctioned countries including Russia and Belarus are not eligible.	
Property Type	**Single Family, Attached, Detached:** No restrictions | **Rural:** Not eligible | **2-4 Units, Condominium, Condo Hotel:** Max LTV/CLTV Purchase 70%, Refinance 65%	
Short-Term Rent	Max LTV: Purchase 70% | Refinance 65%	
Acreage	Property up to 2-acres, not meeting the rural definition, eligible	
Cash-In-Hand	Max cash-in-hand: **LTV > 50%:** $300,000 **LTV ≤ 50%:** $500,000 Total equity withdrawn can't exceed above limits	
Appraisal	Properties with condition rating of 5 or 6 are not acceptable. Desk review required for all loan files not requiring 2nd appraisal. Transferred appraisal acceptable. 2nd appraisal or Desk Appraisal must be ordered from Champions Approved AMC	

Underwriting Requirements	
Assets	Sourced and Seasoned for 60 days.
Gift Funds	Not allowed
Reserves	12 months PITIA | Cash out may be used to satisfy reserve requirements
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.) Step down option available for the 5 and 3 year Prepay terms. 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.
Power of Attorney	Not allowed
Subordinate Financing	Must be institutional. No seller carrybacks. Max CLTV equals Max LTV on transaction.

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Overview

Foreign National 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 Foreign National programs.

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*.

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

Program Eligibility

Foreign National: Program for non-resident alien who is not authorized to live or work in the U.S or holds a work Visa that is indicative of a more temporary residency than those required to meet Non-Permanent Resident Alien requirements. To be eligible, the borrower must live and work in another country and be a legal resident of that same country. The following loan products are eligible:

Fully Amortizing

- 5/6 Month SOFR: (2/1/5 Cap Structure)
- 7/6 Month SOFR: (5/1/5 Cap Structure)
- 30 Year Fixed

Interest-Only

- 5/6 Month SOFR: (2/1/5 Cap Structure)
- 7/6 Month SOFR: (5/1/5 Cap Structure)
- 30 Year Fixed

  Interest Only Period:

  Available for fixed period of ARM or 10 years on 30 Year Fixed rate products.

  Amortization Period:

  30 Year

Qualifying Rate (All Doc Types):

  Fixed:

  Qualify borrower(s) at the Note Rate. Interest Only (ITIA)

  ARMs:

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

  7/6 Month ARM – 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. Interest Only = ITIA.

Loan Amounts

Minimum Loan Amount: $150,000

Maximum Loan Amount: $1,500,000

Minimum FICO

- 680 if qualifying using US Credit

Maximum LTV/CLTV

- 70%
- MAX Cash-In-Hand:
  - LTV > 50% $300,000
  - LTV ≤ 50% $500,000
  - Total equity withdrawn cannot exceed above limits

Interested Party Contributions

- Up to 3%

All Interested Party Contributions must be properly disclosed in the sales contract, appraisal, loan estimate and closing disclosure and be compliant with applicable federal, state and local law.
Interested party contributions include funds contributed by the property seller, builder, real estate agent/broker, mortgage lender, or their affiliates, or any other party with an interest in the real estate transaction.
Interested party contributions may only be used for closing costs and prepaid expenses (Financing Concessions) and may never be applied to any portion of the down payment or contributed to the borrower's financial reserve requirements. If an Interested Party Contribution is present, both the appraised value and sales price must be reduced by the concession amount that exceeds the limits referenced above.

Escrow | Impound Accounts (10.23.23)

Escrows for taxes and insurance are required on all loans with LTVs greater than 80%, unless otherwise specified by applicable state law. Flood insurance is not eligible for escrow/impound waiver.

Secondary Financing (10.23.23)

Secondary financing must be institutional, no private party secondary financing is allowed. Existing secondary financing must be subordinated and recorded or refinanced. HELOC CLTV must be calculated at the maximum available line amount unless the borrower can provide documentation showing the line of credit is past its draw period. No seller carrybacks. Max CLTV equals max LTV on loan transaction.

Age of Documents

Credit, asset, and income documents are good for maximum of 90 days.

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.

Florida Foreign National Affidavit (12.14.23)

For purchase transactions, all individual and entity buyers to fully execute the applicable Foreign Interest Affidavit.

State and Federal High-Cost Loans | HPML

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

Prepayment Penalty (2.8.24)

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").
- Step down option available for the 5 and 3 year Prepay terms.
- 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, and 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.

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 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 transactions.

Transaction Types

Eligible Transactions

Purchase

- Proceeds from the transaction are used to finance the acquisition of the subject property.
- LTV/CLTV based upon the lessor of the sales price or appraised value.

Rate/Term Refinance

- Proceeds from the transaction are used to pay off an existing first mortgage loan and any subordinate loan used to acquire the property.
- Any subordinate loan not used in the acquisition of the subject property provided one of the following apply:
  - Closed end loan, at least 12 months of seasoning has occurred.
  - HELOC, at least 12 months of seasoning has occurred and total draws over the past 12 months are less than $2,000. HELOC must be closed.
- Buying out a co-owner pursuant to an agreement.
- Properties listed for sale must be taken off the market prior to disbursement of the refinance loan.
- Properties listed for sale in the past (6) months are ineligible unless loan contains a three (3) year prepayment penalty.
- Paying off an installment land contract executed more than 12 months from the loan application date.
- Cash back in an amount not to exceed the lesser of 2% of the new loan amount or $5,000 can be includedin the transaction.
- If the subject property was acquired greater than six (6) months from application date, the appraised value will be used to determine LTV/CLTV. If the property was acquired

less than or equal to six (6) months from the application date, the lesser of the current appraisal value or previous purchase price plus documented improvements (if any) will be used to determine LTV/CLTV. The purchase settlement statement and any invoices for materials/labor will be required.

Cash-Out Refinance

- A refinance that does not meet the definition of a rate/term refinance
- A mortgage secured by a property currently owned free and clear is considered cash out.
- The payoff of delinquent real estate taxes, federal taxes, state taxes and judgments (60 days or more past due) is considered cash out.
- The borrower must indicate the purpose of the cash out proceeds. Cash out proceeds must be solely for business purposes.
- Properties listed for sale must be taken off the market 90 days prior to disbursement of the refinance loan.
- Properties listed for sale in the past (6) months are ineligible unless loan contains a three (3) year prepayment penalty.
- Loans not eligible for cash-out:
  - A prior cash out transaction within the last 12 months unless a documented benefit exists.
  - Payoff of a land contract/contract for deed
- See Champions Funding Matrices for cash-out limits.

Seasoning Requirements:

- Cash-Out Seasoning is defined as the between prior financing note date or date of purchase and note date of new loan.
- If owned less than 12 months, use lesser of purchase price plus documented improvements or appraised value. If more than 12 months use appraised value. If the borrower acquired the property through inheritance or was legally awarded the property (divorce, separation) current appraised value may be used.
- Cash-Out Seasoning of less than (6) months is not permitted unless the borrower acquired the property through an inheritance or was legally awarded the property (divorce, separation).
  - If the property was owned by an LLC that is majority-owned or controlled by the borrower(s), the time it was held by the LLC may be counted towards meeting the borrower's six-month ownership requirement.
  - If the property was owned by an inter vivos revocable trust, the time held by the trust may be counted towards meeting the borrower's six-month ownership requirement if the borrower is the primary beneficiary of the trust.

Delayed Financing (10.23.23)

- Delayed Financing within 6 months of original purchase is allowed with the following restrictions:
  - The original purchase transaction was an arms-length transaction.

- The source of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property).
- The maximum LTV/CLTV ratio for the transaction is based upon the lower of the current appraised value or the property's purchase price plus documented improvements.
- The preliminary title search or report must confirm that there are no existing liens on the subject property
- The transaction is considered cash-out, cash-out pricing adjustors apply
- The new loan amount can be no more than the actual documented amount of the borrower's initial investment subject to the maximum LTV/CLTV for cash-out transactions and the maximum cash-in-hand guidelines.

Non-Arm's Length and Interested Party Transactions

Non-Arm's Length

A non-arm's length transaction occurs when the borrower has a direct relationship or business affiliation with subject property Builder, Developer, or Seller. Examples of non-arm's length transactions include family sales, property in an estate, employer/employee sales and flip transactions.

When the property seller is a corporation, partnership, or any other business entity it must be ensured that the borrower is not an owner of the business entity selling the property.

Interested Party Transaction

A Conflict-Of-Interest Transaction occurs when the borrower has an affiliation or relationship with the MortgageBroker, Loan Officer, Real Estate Broker or Agent, or any other interested party to the transaction. In the case of the Mortgage Broker, Loan Officer, or Real Estate Broker/Agent extra due diligence must be exercised. For example, the seller's real estate agent for the subject property may not act as the loan officer for theborrower(s) purchasing the same subject property. An examination of the relationship among the Mortgage Broker, Title/Escrow Companies, Appraiser and any other party to the transaction must be closely examined. A Letter of Explanation regarding the relationship between the parties is required.

Non-Arm's Length and Interested Party Transactions Eligibility

- Buyer(s)/Borrower(s) representing themselves as agent in real estate transaction
  - Commission earned by buyer/borrower cannot be used for down payment, closing costs, or monthly PITIA reserves
- Seller(s) representing themselves as agent in real estate transaction is allowed
- Purchase between landlord and tenant <u>not allowed</u>
- Purchase between family members <u>not allowed</u>
- Borrower to provide cancelled check verifying the earnest money deposit
- Employer to employee sales or transfers not allowed – the borrower cannot have a business relationship or business affiliation with the builder, developer, or seller of the property
- Property trades between buyer and seller <u>not allowed</u>

Borrower Eligibility

Residency

Eligible	• Foreign National • Non-Permanent Resident Alien (refer to the Foreign National section for specifics)
Ineligible	• U.S. Citizen • Permanent Resident Alien • Applicants possessing diplomatic immunity • Borrowers from OFAC sanctioned countries • Politically exposed borrowers • 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.

US Citizen

Not allowed on the Foreign National program

Permanent Resident Alien

Not allowed on the Foreign National program

Non-Permanent Resident Alien

An alien admitted to the United States as a lawful temporary resident. Lawful non-permanent residents are legally accorded the privilege of residing temporarily in the United States. Refer to the Foreign National Section for specifics.

Inter Vivos Revocable Trust

Not allowed on the Foreign National program.

Ineligible Borrowers

- Revocable/Irrevocable Trusts | Land Trust | Blind Trust
- Borrowers with diplomatic immunity or otherwise excluded from U.S. jurisdiction
- Any borrower suspended, debarred, or otherwise excluded per the LDP/GSA and/or OFAC/SAM findings

Foreign National Specific Documentation Requirements

The following are required as evidence the borrower is in the U.S legally:

- Copy of the borrowers valid and unexpired passport (including photograph).

- If a non-U.S. citizen is borrowing with a U.S. citizen, foreign national documentation requirements still apply.
- All parties (borrowers and property sellers) involved in the transaction must be screened through exclusionary lists and must be cleared through OFAC's SDN list. A search of Specially Designated Nationals & Blocked Persons list may be completed via the US Department of Treasury: http://sdnsearch.ofac.treas.gov/
- Borrowers from OFAC sanctioned countries are ineligible http://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx.
- Individuals with Diplomatic immunity are not eligible, immunity status is listed on the reverse side of the U.S. issued ID card or at: https://2009-2017.state.gov/s/cpr/rls/dpl/index.htm
- Documents signed by Borrowers outside of the United States must be notarized by a U.S. embassy or consular official. The certificate of acknowledgment must meet the standard notarial requirements and must include the embassy or consular seal. If the U.S. embassy or consular official is unavailable, a notary is acceptable if the country, where signing is taking place, is part of the Hague Convention and the signed documents are accompanied by an Apostille. See the following link to determine if the country is part of the Hague Convention: https://travel.state.gov/content/travel/en/records-and-authentications/authenticate-your-document/apostille-requirements.html
    - Model Apostille forms can be found on the following link: https://www.hcch.net/en/instruments/specialised-sections/apostille

Foreign Residency

A foreign national borrower must evidence their primary residence for the country issuing their Passport. Foreign National borrowers may not occupy the subject property as a primary residence.

- A complete loan application (FNMA Form 1003) is required on all loan files reflecting the borrowers address for their primary residence in their country of origin.
- The application must include the borrower's full legal name, phone number, address including flat, floor, unit or house number, street name, city, province/state along with a postal code.
- Borrower to provide a third-party document with an address that matches the primary residence on the application e.g., lease agreement, utility bill, financial statement.

Automatic Payment Authorization (ACH)

Automatic Payment Authorization is required for all foreign national borrowers. Funds must be from a U.S. Bank. The executed (ACH) enrollment form must be included in the closed loan submission package. The (ACH) enrollment form must include the bank routing number, account number, account type and a voided check. Borrowers may select a date within the grace period stated on the Note.

Credit

Qualifying U.S. Credit for Foreign National Borrowers

For foreign national borrowers with a valid Social Security number, a credit report should be obtained.
Restrictions when qualifying with U.S. credit:
Minimum Credit Score: 680

Standard Tradelines

- Two (2) tradelines reporting satisfactorily for 24-months with activity in the most recent 12-months or;
- Three (3) tradelines reporting for 12- months all with activity in the most recent 90 days.

The following are not acceptable to be counted as a tradeline:

- Any liabilities in deferment status
- Accounts discharged through bankruptcy
- Authorized user accounts
- Disputed accounts
- Non-Traditional accounts
- Charge-offs, collection accounts,
- Foreclosures, deed in lieu of foreclosure, short sales, or pre-foreclosure sales.

Credit Reports

The credit report used to evaluate may not reflect a security freeze. If the borrower(s) unfreeze credit after the date of the original credit report, a new tri-merged report must be obtained to reflect current and updated information from all repositories. If credit is to remain frozen a letter of explanation from the borrower must be supplied as to why the credit will remain frozen as and clearly stating they have applied for a mortgage loan through their said Broker.

Credit Score

Credit Score Selection:

- **Decision Score Definition-** Minimum of one borrower with two credit scores. Use the lower of the two credit scores or the median if there are three credit scores.
- **Investor Program:** Use decision score amongst all borrowers/guarantors who will be on the Note and Title.

Tradeline Requirements

- Two (2) tradelines reporting satisfactorily for 24-months with activity in the most recent 12-months or;
- Three (3) tradelines reporting for 12- months all with activity in the most recent 90 days.

The following are not acceptable to be counted as a tradeline:

- Any liabilities in deferment status
- Accounts discharged through bankruptcy

- Authorized user accounts
- Disputed accounts
- Non-Traditional/Self-reported accounts
- Charge-offs, collection accounts,
- Foreclosures, deed in lieu of foreclosure, short sales, or pre-foreclosure sales.

Housing History

A housing history for the borrower's primary residence is not required. Refinance transactions (including cash out) require the most recent 12-month housing history for the subject property.

Mortgage Payment History – Forbearance | Modification | Deferrals:

- **Greater than 12 Months from Note Date:**
    - Forbearance, loan modification, or deferrals (including COVID-19related events) completed or reinstated greater than 12 months from the Note date of the subject transaction and having a 0x30x12 Housing History are allowed
- **Within 12 Months of Note Date:**
    - Forbearance, loan modification, or deferrals (including COVID-19 related events) completed or reinstated within 12 months of the Note date of the subject transaction are not eligible

Mortgage Payment History Documentation

If adequate mortgage payment history for the subject property is not included in the borrower's credit report one of the following must be provided to verify the borrower's payment history:

- A standard mortgage verification; **or**
- Loan payment history from the servicer; **or**
- The borrower's cancelled checks for the last 12 months; **or**
- The borrower's year-end mortgage account statement provided the statement includes a payment receipt history, and, if applicable, cancelled checks for the months elapsed since the year-end mortgage account statement was issued.

***Note:** For VOMs tied to private mortgages – 12 months recent cancelled checks and/or bank statements are required to support the VOM provided as well as a copy of the original note plus any additional riders or subsequent modifications to ensure the loan being paid off is current.

Consumer Credit

Consumer Credit History

All mortgage accounts reflected on credit must be current at application and remain paid as agreed through closing.

Timeshares

Timeshare obligations will be treated as a consumer installment loan.

Consumer Credit Charge-Offs and Collections

- Individual collection and non-mortgage charge-off accounts totaling greater than $5,000 must be paid in full prior to or at closing.
- Medical collections may remain open regardless of amount.

- 2nd mortgage or junior lien that has been charged off is subject to foreclosure seasoning periods for grade determination based upon the charge off date
- Collections and charge-offs that have expired under the state statute of limitations on debts may be excluded. Evidence of expiration must be documented.

Judgment or Liens (12.12.23)

Any outstanding judgments, garnishments, or liens must be paid off prior to or at loan closing.

Income Tax Liens

All income tax liens (federal, state, local) disclosed on title must be paid off prior to or at loan closing.

Bankruptcy History

All bankruptcies must be settled at time of application. Evidence of bankruptcy resolution is required. The length of time is measured from the discharge/dismissal date to the note date. Please refer to the program matrices for requirements. Bankruptcy seasoning required for the Investor program is a minimum of 36 months.

Foreclosure Seasoning

Foreclosures require a letter of explanation from the borrower. The situation causing the foreclosure must be adequately documented as resolved. The new housing payment must be considered when determining if the situation is adequately resolved. If multiple foreclosures exist in this time frame each must be addressed in the explanation. The length of time is measured from the settlement date to the note date. In the case of a foreclosure which was included in Bankruptcy, the seasoning timeline will start from the earlier of: a) the date of discharge of bankruptcy; and b) the foreclosure completion date. Re-established credit of at least 2 tradelines paid as agreed for 12 months is required or the foreclosure date will be used. Active foreclosures are not allowed. Foreclosure seasoning required for the Investor program is program is a minimum of 36 months.

Short Sale/Deed in Lieu Seasoning

Short Sales or Deed-in-Lieu of Foreclosures require a letter of explanation from the borrower. The situation causing the Short Sale/Deed-In-Lieu must be adequately documented as resolved. The new housing payment must be considered when determining if the situation is adequately resolved. If multiple Short Sales/Deed-In-Lieu exist in this time frame each must be addressed in the explanation. The length of time is measured from the settlement date to the note date. In the case of a short sale/deed-in-lieu which was included in Bankruptcy, the seasoning timeline will start from the earlier of: a) the date of discharge of bankruptcy; or b) the short sale/deed-in-lieu completion date. Re-established credit of at least 2 tradelines paid as agreed for 12 months is required or the completion date will be used. Short Sale or Deed-In-Lieu currently in process are not allowed. Short Sale / Deed in Lieu seasoning required for the Investor program is a minimum of 36 months.

Obligations not Appearing on Credit Report

Housing and Mortgage Related Obligations

Housing and mortgage-related obligations include property taxes, premiums and similar charges that are required by the creditor (i.e., mortgage insurance), ground rent, and leasehold payments. Subject property must be fully documented in this regard. These obligations must be verified using reasonably reliable records such as taxing authority or local government records, homeowner's association billing statements, information obtained from a valid and legally executed contract

Other Real Estate Owned

- Schedule of Real Estate Owned of the 1003 application must be fully completed to include the following information:
  - Present Market Value
  - Amount of Mortgages & Liens

Qualifying Foreign Credit for Foreign National Borrowers

Foreign national borrowers without qualifying U.S. credit (Including borrowers without a valid Social Security number and borrowers with or without an Individual Tax Identification Number) must provide evidence of two (2) open tradelines reporting for two (2) years with activity in the most recent 12 months. No derogatory credit history is permitted within the 2-year history under review. ANY combination of the following is acceptable to arrive at the tradeline requirement:

- Tradelines evidenced via a U.S. credit report; AND/OR
- Alternative Tradelines consisting of two of the following:
  - Credit Reference letter(s) from a verified financial institutions in the borrower's country of origin
    - A reference letter must be from an internationally known financial institution.
    - Each letter of reference must state the type and length of the relationship, how the account is held, payment amount, outstanding balance and status of account including a minimum 12-month payment history.
    - A single reference source may provide verification of multiple accounts. Individual account detail must be provided.
    - The letter must mention the borrower by name.
    - Name, title & contact information of the person signing the letter must be included.
    - Currency must be converted to U.S. Dollars and signed and dated by certified translator.
    - All documents must be translated into English.
  - Credit Card Statements – minimum of twelve (12) recent credit card statements reflecting a timely payment history.

Housing History

A housing history for the borrower's primary residence is not required. Refinance transactions (including cash out) require the most recent 12-month housing history for the subject property.

Assets

Documentation Options

Various forms of documentation are acceptable depending on borrower asset type. All asset statements must be dated within 90 days of note date.

Down Payment Sourcing

Down payment funds should be sourced and seasoned for at least 60 days.

Reserves

- A minimum of twelve (12) months of reserves are required.
- ARM loans – Reserves based upon initial proposed PITIA, not the qualifying payment.
- Reserves for a loan with an Interest Only feature are based upon the Interest Only payment. (ITIA)
- Cash out can be used as reserves.
- Proceeds from a 1031 Exchange cannot be used to meet reserve requirements.

Ineligible Assets

- Down payment assistance programs
- Grant Funds
- Builder Profits
- Employer Assistance Assets
- Cash advance on credit card
- Cash for which the source cannot be verified (cash on hand)
- Commission from sale of subject property
- Proceeds from an unsecured loan
- Salary advance
- Sweat equity (contribution to the construction or rehabilitation of a property in the form of labor or services rather than cash)
- Unverifiable source of funds
- Margined Assets listed within client accounts are not eligible as a source of funds or reserves.
- Stock options and non-vested restricted stock
- Non-vested stock
- Reverse mortgage
- Pension fund
- Seller Real Estate Tax Credit
- Foreign Assets (must be transferred to a domestic US account at least 10 days prior to closing unless held in a foreign bank with US branches insured by the FDIC)
- Cryptocurrency

Gift Funds

Gift funds are not allowed for loans qualified on the Foreign National program.

Asset Documentation

In addition to documenting the down payment, closing costs, and minimum PITIA reserve requirements, all borrowers must disclose and verify all other liquid assets. All asset statements must be dated within 90 days of note date.

- Account Statements should cover most recent two months' period. Documentation provided must, at minimum, validate the current month's beginning balance, total deposits, total withdrawals, and current month's ending balance. Assuming this required information is provided, all pages of the statement(s) may not be required. In any instance where not all pages are provided it is still required to source and document any unusually large deposits.
- Stocks/Bond/Mutual Funds -100% of stock accounts can be considered in the calculation of assets for closing and reserves.
- Vested Retirement Account funds – 80% may be considered for closing and/or reserves.
- Non-vested or restricted stock accounts are not eligible for use as down payment or reserves.
- When Domestic bank statements are used, large deposits must be evaluated. Large deposits are defined as a single deposit that exceeds 10% of the loan amount with exception of funds transferred from a Foreign Account. All transfers from foreign accounts must be sourced from an account that belongs to the borrower. This may be documented as follows:
    - Letter signed and dated by the Foreign Financial Institution validating the account number from which the monies came from and the borrower's percentage of ownership of the account or
    - Two months' bank statements covering 30-day cycles, all pages, from the Foreign Financial Institution translated in English.
    - If foreign funds are coming from a Business Account, CPA letter or equivalent, stating borrower(s)' percentage of ownership of the business. Must be verifiable.

  Requirements vary based on transaction type:

  Refinance:

  - Documentation or explanation is not required. However, it must be clear that any borrowed funds, including any related liability, are considered.

  Purchase:

  Documentation is required to verify the large deposit came from an acceptable source. Any unverified large deposit must be backed out of the qualifying assets and a letter of explanation is required.

Assets Held in Foreign Accounts (10.23.23)

Assets held in foreign accounts may be used as a source of funds to close and to meet applicable reserve requirements.

- Documenting Assets Held in Foreign Accounts

- These funds must be transferred to a U.S. domiciled account in the borrower's name at least ten (10) days prior to closing unless funds are held in a foreign bank with U.S. branches insured by the FDIC; **OR**
- Verified funds for closing to be wired directly to the closing agent. Wire transfer to include bank name, account holder name, and account number. Bank used as a source of wire transfer must match the bank holding the assets verified in the loan file.
- Assets must be verified in U.S. Dollar equivalency at the current exchange rate via either www.xe.com or the Wall Street Journal conversion table
- A copy of the most recent two months' statements of that account.

Business Funds

Business funds may be used for down payment, closing costs, and for the purposes of calculating reserves. The borrower(s)' ownership of the business, if account is in business name only, must be documented.

- Business funds used to qualify are calculated based on the borrower's percentage of ownership in the company. For example, if a borrower owns 25% of the business, then only 25% of the available balance of the account wouldbe allowed to qualify.
- If foreign funds are coming from a Business Account, CPA letter or equivalent, stating borrower(s)' percentage of ownership of the business. Must be verifiable.

Trust Assets (10.23.23)

Assets held in in a Trust require the following:

- Obtain written documentation (e.g., bank statements) of the value of the trust account from either the trust manager or the trustee, and
- Document the conditions under which the borrower has access to the funds

Income

Debt Service Coverage

The Debt Service Coverage documentation option is only allowed on the Investor Program and 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.

Property Income Analysis:

Gross monthly rents are used to determine the DSCR. The 1007 or 1025 Comparable Rent Schedule survey prepared by the appraiser is required on all DSCR transactions. Properties used exclusively for short-term rentals are permitted; see short-term rental requirements below.

Debt Service Coverage Ratio (DSCR)

Interest Only transactions DSCR calculated using ITIA.

Rent Documentation Requirements & DSCR Calculation:

Long Term Rental (3.11.24)

- **Purchase Transactions:**

- Monthly Gross Rents are the monthly rents established on FNMA Form 1007 or 1025 reflecting long term market rents
- If the subject property is currently tenant occupied, the 1007 or 1025 must reflect the current monthly rent
- Vacant or unleased property is allowed without LTV restrictions

- **Refinance Transactions:**
  - **Required Documentation:**
    - FNMA Form 1007 or 1025 reflecting long term market rents, and lease agreement
    - If the lease has converted to month-to-month, then provide most recent two (2) months proof of receipt to evidence continuance of lease or must use the market rent to qualify.
  - Monthly Gross Rents for Purchase and Refinance are determined by using the actual lease amount or estimated market rent for 1007/1025 as follows:
    - If using the lower of the actual lease amount or estimated market rent, nothing further is required.
    - If using a higher actual lease amount, evidence of 3-months of receipt is required.
      - Evidence of 3 most recent consecutive months of rent received
    - If using a higher estimated market rent from 1007/1025, it must be within 120% of the lease amount. If the estimated market rent exceeds the lease amount by more than 120%, the estimated market rent is capped at 120%.
  - A vacant or unleased property is allowed without LTV restrictions.
- DSCR Calculation:
  - Debt Service Coverage Ratio is the Monthly Gross Rents divided by the PITIA of the subject property. See this matrix for required Debt Service Coverage Ratios.
  - Gross rents divided by PITIA = DSCR

Short Term Rental (10.25.23)

Short-term rentals are properties which are leased on a nightly, weekly, monthly, or seasonal basis. For example: AirBnB, VRBO, Flipkey, etc.

- **Short – Term Rental Income – Refinance or Purchase Transactions:**
- LTV/CLTV limits:
  - Purchase: Lesser of 70%, or the LTV/CLTV based upon the DSCR/FICO/Loan balance matrix.
  - Refinance: Lesser of 65%, or the LTV/CLTV based upon the DSCR/FICO/Loan balance matrix.
  - See matrix for condo hotel LTV/CLTV limits.
- Ineligible for No Ratio (DSCR < .75)
- DSCR Calculation:
  - Monthly gross rents based upon a 12-month average to account for seasonality required.

- Gross rents reduced by 20% to reflect extraordinary costs (i.e., advertising, furnishings, cleaning) associated with operating short-term rental property compared to non-short-term property. If the rental documentation referenced below includes expenses, actual expenses should be compared to the 20% expense factor. If actual expenses are less than 20%, a minimum 20% expense factor is required to be utilized. If actual expense exceeds 20%, the actual expense factor should be used.
- (Gross Rents * .80) divided by PITIA = DSCR.

- **Any of the following methods may be used to determine gross monthly rental income:**
    - A 1007 or 1025 Comparable Rent Schedule survey prepared by the appraiser reflecting long-term or short-term market rents.
        - If long-term rent is utilized, 20% expense factor is not to be applied.
    - The most recent 12-month rental history statement from the 3rd party rental/management service.
        - The statement must identify the subject property/unit, rents collected for the previous 12-months, and all vendor management fees. The rental income will exclude all vendor or management fees.
    - The most recent 12-month bank statements from the borrower evidencing short-term rental deposits. Borrower must provide rental records for the subject property to support monthly deposits.

Property Eligibility

Appraisals

Appraisal Requirements

Full Interior/Exterior appraisal required. Fannie Mae/Freddie Mac Forms 1004/70, 1025/72, or 1073/465 must be used. The licensed appraiser is required to perform an interior inspection when completing the appraisal report.

- The Appraisal should be dated no more than 120 days prior to the Note Date. After a 120-day period, a new appraisal report is required.
- Transferred appraisals accepted with the following documentation:
    - Full color copy of appraisal in a PDF format (inclusive of 1007 rent schedules and or 1004d if applicable)
    - The appraisal must have been completed ay an Appraisal Management Company (AMC). Appraisal must be less than 120 days old at note date.
    - Provide Champions Funding LLC with a copy of the appraisal invoice.

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

Second Appraisal

A Second Appraisal from a Champions Funding approved AMC is required when any of the following conditions exist. When a second appraisal is provided, the transactions "Appraised Value" will be the lower of the two appraisals. 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
- 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 without a second appraisal. The options include the following:

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

If the Desk Appraisal reflects a value more than 10% below the appraised value the next option would be either a field review or second appraisal, both must be from a Champions Funding LLC approved AMC. Any discrepancies found between the documentation provided (i.e., the appraisal and Desk Review) must be addressed. The final appraised value is based on the lowest reported value amongst all the appraisal documents/reviews.

Minimum Square Footage

- Single Family Residence - minimum 700 square feet
- Condominiums – minimum 500 square feet
- 2-4 units – minimum 400 square feet per individual unit

Rural Property

A property is classified as rural if the following conditions exists:

- The appraiser indicates in the neighborhood section of the report a rural location; or
- The following two (2) conditions exist:
    - The property is located on a gravel road, and
    - Two of the three comparable properties are more than five (5) miles from the subject property.

If a property meets the above definition of rural, it is ineligible.

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.

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

- Properties not readily accessible by roads that meet local standards
- Properties not suitable for year-round occupancy regardless of location
- Agricultural properties including farms, ranches, orchards
- Manufactured, Mobile
- Cooperative share loans
- Boarding houses, bed/breakfast properties, or single room occupancy
- Properties with zoning violations
- Dome or geodesic homes
- Assisted living facilities
- Homes on Indian reservations, Indian Leased Land
- Hawaii properties located in lava zones 1 and/or 2
- Houseboats
- Acreage > 2 acres
- Appraised condition rating of C5, or C6
- Rural
- Log Homes
- Properties used for cultivation, distribution, manufacture, or sale of marijuana
- Mixed Use Properties

Existing Construction (10.23.23)

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

Accessory Units (ADU) (10.23.23)

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

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

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

Property Flipping

A property is considered a "flip" if either of the following are true:

- The price in the borrower's purchase agreement exceeds the property Seller's acquisition price by more than 10% if the property Seller acquired the property 90 or fewer days prior to the date of the borrower's purchase agreement.
- The price in the borrower's purchase agreement exceeds the property Seller's acquisition price by more than 20% if the property Seller acquired the property 91-180 days prior to the date of the borrower's purchase agreement.
  - The acquisition date is the day the seller became the legal owner. The purchase date is the day the borrower and the seller sign the home purchase agreement. Start with the day after the acquisition date and count up to and including the purchase date.

If the property is a "flip" as defined above, the following additional requirements apply:

- A second appraisal must be obtained from a Champions Funding LLC's approved AMC.
- If the loan is subject to Regulation Z, a copy of the second appraisal must be provided to the borrower in compliance with the federal HPML requirements.
- The second appraisal must be dated prior to the loan consummation/note date.
- The property Seller on the purchase contract must be the owner of record.
- Increases in value should be documented with commentary from the appraiser and recent comparable sales.
- Sufficient documentation to validate the actual cost to construct or renovate (e.g., purchase contracts, plans and specifications, receipts, invoices, lien waivers, etc.) must be provided, if applicable.

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

Ineligible forms of vesting are:

- Land trusts,
- Blind Trusts
- IRAs

Title vesting in an inter vivos revocable trust is permitted when the requirements set forth in this section are followed. The Fannie Mae requirements should be followed to the extent this section is silent.
The trust must be established by one or more natural persons, solely or jointly. The primary beneficiary of the trust must be the individual(s) establishing the trust. The trust must become effective during the lifetime of the person establishing the trust. If the trust is established jointly, there may be more than one primary beneficiary as long as the income or assets of at least one of the individuals establishing the trust will be used to qualify for the mortgage.
The Trustee must include either:

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

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

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

- The borrower
- The settler
- Fully authorized under the trust documents and applicable law to pledge, or otherwise encumber new assets

Entity Review (3.14.24)

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 members / managers representing at least 50% ownership of the entity. (Example: 4 members each with 25% ownership; at least 2 members would need to be on the loan and sign personal guaranties, 3 members with equal percentage of 33.33%, 2 of the 3 members would need to be on the loan and sign the personal guaranties.)
- 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.
- Each Member of the Entity must receive notice of the loan and its terms prior to closing.
- The following Entity documentation must be provided:

Limited Liability Company

- Entity articles of organization or partnership (or equivalent)
- Evidence of good standing
    - Good standing is always required for the state in which the entity was formed (e.g., Certificate, screen shot from state website)
        - If the subject property is not located in the same state in which the entity was formed, evidence of good standing is also required from the state where the subject property is located (e.g., Certificate, screen shot from state website)
- Entity documents authorizing the guarantor to execute loan documents on behalf of the entity (e.g., Operating Agreement, Certificate of Authorization)

    - If not available, a Borrowing Certificate is required
- Entity documents that include a list of members/managers and ownership percentage (e.g., organization structure)
- EIN/Tax Identification Number
    - Single member LLC may use EIN or the guarantor social security number
    - Multi-member LLCs require an EIN

<u>Corporation</u>

- Filed Certificate/Articles of Incorporation and all amendments (or equivalent)
- By-Laws and all amendments
- Evidence of good standing
    - Good standing is always required for the state in which the entity was formed (e.g., Certificate, screen shot from state website)
        - If the subject property is not located in the same state in which the entity was formed, evidence of good standing is also required from the state where the subject property is located (e.g., Certificate, screen shot from state website)
- EIN/Tax Identification Number
- Borrowing Resolution/Corporate Resolution granting authority of signer to enter loan obligation
- Receipt of current year franchise tax payment or clear search

<u>Partnership</u>

- Filed Partnership Certificate (if a general partnership, filing with the SOS may not be required)
- Partnership Agreement and all amendments
- Evidence of good standing
    - Good standing is always required for the state in which the entity was formed (e.g., Certificate, screen shot from state website)
        - If the subject property is not located in the same state in which the entity was formed, evidence of good standing is also required from the state where the subject property is located (e.g., Certificate, screen shot from state website)
- EIN/Tax Identification Number
- Limited partner consents (where required by partnership agreement).

<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

Examples of Signature Requirements

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

Sample 1:

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

James Johnson

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]

Leasehold Properties

In areas where leasehold estates are commonly accepted and documented via the Appraisal, loans secured by leasehold estates are eligible for purchase. The mortgage must be secured by the property improvements and the borrower's leasehold interest in the land. The leasehold estate and any improvements must constitute real property, be subject to the mortgage lien, and be insured by the lender's title policy. Documentation must be provided to confirm Leaseholds meet all FNMA eligibility requirements (i.e., term of lease to exceed maturity date of the loan transaction, product types).

Limitations on Financed Properties

- Champions Funding's exposure to a single borrower shall not exceed $10,000,000 in current UPB or ten (10)properties

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 adverseevent 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 thesame.
- Inspection report must include photographs of the subject property and street view.
- Any damage must be repaired and re-inspected prior to purchase

Appraisals Completed After Disaster Event

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

Condominiums (10.23.23)

Ineligible Projects:

- Multi-family units where a single deed conveys ownership of more than one, or all of the units.
- A common-interest apartment
    - A project in which individuals have an undivided interest in a residential apartment building and land and have the right of exclusive occupancy of a specific apartment unit in the building.
    - The project or building is often owned by several owners as tenants-in-common or by a homeowners' association.
- Fragmented or segmented ownership
    - Ownership is limited to a specific period on a recurring basis (i.e., timeshare, quarter share).
- Any project where the developer (or its affiliates) owns the Common and/or Limited Elements and leases the elements back to the HOA.
- Any project that has non-conforming zoning (can't be rebuilt to current density).
- Any project that requires Private Transfer Fees as a part of the transaction, and those fees do not benefit the association.
- A project subject to the rules and regulations of the US Securities and Exchange Commission.
- Timeshare or projects that restrict the owner's ability to occupy the unit.
- Houseboat project.
- Manufactured home projects.
- Assisted living facilities or any project where the unit owner's contract includes a lifetime commitment from the facility to care for the unit owner regardless of future health or housing needs.
- Any project in need of critical repairs with one of the following characteristics:
    - mold, water intrusions or potentially damaging leaks to the project's building(s); or
    - unfunded repairs costing more than $10,000 per unit undertaken within the next 12 months (does not include repairs made by the unit owner or repairs funded through special assessment).
- Any project with significant deferred maintenance or has received a directive from a regulatory or inspection agency to mark repairs due to unsafe conditions.

General Project Criteria

- All loans secured by condominium projects require a completed HOA questionnaire and condominium review except for:
    - Site Condominium
    - Two- to four-unit condominium projects will not require a project review provided the following are met:
        - Project is not ineligible.

        - Evidence of sufficient hazard, flood, and walls-in insurance coverage if the subject unit has individual coverage. If the insurance covers the entire project, it must be sufficient in the event of a total loss.
        - HOA dues to be included in DSCR score if applicable.
- Commercial space allowed up to 50% of project.
- No more than 20% of the total units in the project may be 60 days or more past due on the condominium/HOA fees.
- Investor concentration allowed up to 60%.
- The project developer may be in control of the condominium association provided the Master Agreement allows for the homeowners to take control upon either a predetermined percentage of unit sales or within a defined time frame.
- Single entity ownership allowed up to 20% of the project.
- Projects involved in litigation are acceptable provided the lawsuit(s) are not structural in nature which impact the subject unit and do not affect the marketability of the project units and potential damages do not exceed 25% of HOA reserves or documentation from the insurance carrier or attorney representing the insurance carrier that the insurance carrier has agreed to conduct defense and the HOA insurance policy is sufficient to cover the litigation expense.
- 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 documents do not give a unit owner or any other party priority over the rights of the first mortgagee.
- Subject Unit Minimum Requirements: Minimum 500 Square Feet, Full Size Kitchen, minimum of one (1) bedroom.
- Florida Condominiums:
    - For loans secured by a condominium unit in the state of Florida, if the project is over 30 years old (or 25 if within 3 miles of the coast), a structural inspection is required for projects greater than 5 stories. The inspection needs to address items that substantially conform to the definition of a milestone inspection as defined in Florida statute 553.899.
        - Inspection must confirm there are no conditions severe enough to affect the safety, soundness, structural integrity, or habitability of the improvements.
    - Projects with an unacceptable or no inspection are ineligible.
- Special assessment information is to be provided to determine if there is a critical repair. Provide purpose, amount, term, balance, status, and cost per unit.
- Any projects with significant deferred maintenance or have received a directive from a regulatory or inspection agency to mark repairs due to unsafe conditions are not eligible for purchase. Significant deferred maintenance includes deficiencies that meet one or more of the following criteria:

- Full or partial evacuation of the building to complete repairs is required for more than seven days or an unknown period of time
- The project has deficiencies, defects, substantial damage, or deferred maintenance that
  - are severe enough to affect the safety, soundness, structural integrity, or habitability of the improvements; **or**
  - has improvements in need of substantial repairs and rehabilitation including many major components; **or**
  - impedes the safe and sound functioning of one or more of the building's major structural or mechanical elements, including but not limited to the foundation, roof, load bearing structures, electrical system, HVAC, or plumbing; **or**
  - has critical repairs with one of the following characteristics:
    - mold, water intrusions or potentially damaging leaks to the project's building(s); or
    - unfunded repairs costing more than $10,000 per unit undertaken within the next 12 months (does not include repairs made by the unit owner or repairs funded through special assessment).

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

Condominium Hotels (10.23.23)

- Projects that are managed and operated as a hotel or motel, even though the units are individually owned.
- A project that includes registration service and offers rentals of units on a daily, weekly, or monthly basis.
- Investor concentration, within the subject project, may exceed established project criteria, up to 100%
- Maximum LTV/CLTV: See program matrix.
- Minimum loan amount: $150,000
- Maximum loan amount: $1.5 million
- Minimum square footage: 500
- Must have fully functioning kitchen – defined as full-size appliances including a refrigerator and stove/oven.

- Bedroom required.
- Gross rents (for all income doc types) reduced by 20% to reflect extraordinary costs (i.e., advertising, furnishings, cleaning) associated with operating short-term rental property compared to non-short-term property.
- Florida Condominiums:
    - For loans secured by a condominium unit in the state of Florida, if the project is over 30 years old (or 25 if within 3 miles of the coast), a structural inspection is required for projects greater than 5 stories. The inspection needs to address items that substantially conform to the definition of a milestone inspection as defined in Florida statute 553.899.
        - Inspection must confirm there are no conditions severe enough to affect the safety, soundness, structural integrity, or habitability of the improvements.
    - Projects with an unacceptable or no inspection are ineligible.

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

For condominium projects consisting of more than 20 units, fidelity insurance coverage equaling at least sum of three months of assessments on all units in the project is required

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

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.
- 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.
- 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.