CHAMPIONS
FUNDING

ACTIVATOR

Consumer - Alt Doc

Underwriting Guidelines

CHAMPIONS FUNDING

ACTIVATOR

Consumer - Alt Doc

Bank Statements | 1099 Only |WVOE| Asset Qualifier

Primary Residence & Second Home

FICO	Loan Amount	Purchase	Rate & Term Refinance	Cash Out Refinance
720	<= 1,000,000	80%	80%	80%
	1,000,000 - 1,500,000	80%	80%	80%
	1,500,001 - 2,000,000	80%	75%	75%
	2,000,001 - 3,000,000	75%	70%	70%
	3,000,001 - 4,000,000	70%	NA	NA
700-719	<= 1,000,000	80%	80%	80%
	1,000,000 - 1,500,000	80%	80%	80%
	1,500,001 - 2,000,000	80%	75%	75%
	2,000,001 - 3,000,000	70%	65%	65%
680-699	<= 1,000,000	80%	80%	80%
	1,000,000 - 1,500,000	80%	75%	75%
	1,500,001 - 2,000,000	80%	70%	70%
	2,000,001 - 3,000,000	70%	65%	65%
660 - 679	<= 1,000,000	80%	75%	75%
	1,000,000 - 1,500,000	80%	75%	75%
	1,500,001 - 2,500,000	70%	65%	65%

Housing History	Occupancy Restrictions - 2nd Home	Written Verification of Employment Only	12 Mo Bank Statement
0x30x12 WVOE 0x30x24	Max LTV/CLTV:	Max LTV/CLTV	Price Adjustor applies - See Rate Sheet
Housing Event Seasoning	80% - Purchase	80% - Purchase FTHB 70%	
BK/FC/SS/DL: >= 48 Months	75 % Refinance	70% Refinance	**Rural Properties**
Forbearance, Mod or Deferral: See Guidelines	Max Loan Amount: 2,500,000	Primary Residence Only	Not Eligible

State Restrictions: Max Loan $2MM AND 5% LTV Reduction	Arizona, Connecticut, Illinois, New Jersey, Oregon, Tennessee and Utah
Ineligible Locations:	Puerto Rico, Guam, & the US Virgin Islands not eligible

CBSA Restrictions

Max Loan Amt $2MM and 5% LTV reduction:

CBSA Name	CBSA Code	CBSA Name	CBSA Code
San Francisco-Oakland-Hayward, CA	41860	Naples-Immokalee-Marco Island, FL	34940
San Jose-Sunnyvale-Santa Clara, CA	41940	North Port-Sarasota-Bradenton, FL	35840
Santa Cruz-Watsonville, CA	42100	Punta Gorda, FL	39460
Boulder, CO	14500	Boone, NC	14380
Breckenridge, CO	14720	Austin-Round Rock, TX	12420
Cape Coral-Fort Myers, FL	15980	Aberdeen, WA	10140

General Requirements

Product Type	30-Yr Fixed, 15-Yr Fixed 5/6 ARM, 7/6 ARM, 10/6 ARM (40-year term available when combined with interest only feature)		
Interest Only	Min FICO: 660		
Loan Amounts	Min Loan Amount: $150,000 Max Loan Amount: $4,000,000		
Loan Purpose	Purchase, Rate & Term Refinance and Cash Out Refinance		
Occupancy	Primary and Second Home		
Property Type	**Single Family, Attached, Detached, 2-4 Units, Condos:** No Restrictions		**Condo Hotel:** Max LTV/CLTV Purchase: 75% Refinance Rate & Term & Cash Out: 65%
Acreage	Property up to 10-acres, not meeting the rural definition		
Cash-in-Hand	Max Cash In Hand: Unlimited		
Appraisals	Loan Amounts > $2,000,000 require 2 appraisals. 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. **Declining Market:** 5% reduction to max LTV if appraisal indicates property is located in a declining market.		

Income Requirements

12 Month Bank Statements	Income calculated based on 12 months recent Business bank statements. Refer to program guidelines for calculation methods available. Bank statements should show a stable or increasing trend. If the trend is declining and/or irregular, additional documentation may be required up to and including additional 12 months statements.		
Written Verification of Employment	FNMA 1005, most recent year W2 & Two (2) most recent months of personal bank statements reflecting deposit(s) from employer on each statement FTHB Max LTV 70%		
1099 (IRS Form) Only	One (1) Year 1099; Fixed Expense Ratio 10%; YTD Documentation to support continued receipt of income from source		
Asset Qualifier	Eligible assets divided by 84 to determine a monthly income stream		

Underwriting Requirements

Citizenship	US Citizen, Permanent Resident Alien, Non-Permanent Resident Alien (With US Credit and acceptable VISA). DACA not eligible			
Credit	Middle of 3 scores or lower of 2	**DTI Requirements**	Standard max 50%	
Forbearance	If the borrower has resolved missed payments through a loss mitigation solution, they are eligible for a new mortgage loan if they have at least three (3)			
Assets	Min of 30-day asset verification required; any large deposit must be sourced	**Reserves**	Ln Amt < = $1.5M - 6 mos PITIA	
			Ln Amt > $1.5 M - 9 mos PITIA	Ln Amt >$2.5M: 12 mos PITIA
			Cash Out may be used to satisfy requirement	
Gift Funds	Min Contribution: 5%; Not allowed WVOE	**Document Age**	90 Days	
Qualifying Rate	Fixed: Note Rate; ARM: Greater of Note Rate or Fully Indexed Rate; Interest Only: Fully Amortized Payment			
Tradelines	Min: 2 reporting 24 mos w/ activity in last 12 mos OR 3 reporting 12 mos w/ activity in 90 days. If Primary borrower has 3 scores, the minimum tradeline requirement waived			

CHAMPIONS FUNDING

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Overview

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

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

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

Program Eligibility

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

Fully Amortizing (7.18.22)

- 5/6 Month SOFR: (2/1/5 Cap Structure)
- 7/6 Month SOFR: (5/1/5 Cap Structure)
- 10/6 Month SOFR: (5/1/5 Cap Structure)
- 30 Year Fixed

Interest-Only

- Loan Terms: 360
- 5/6 Month SOFR: (2/1/5 Cap Structure)
- 7/6 Month SOFR: (5/1/5 Cap Structure)
- 10/6 Month SOFR: (5/1/5 Cap Structure)
- 30 Year Fixed
- 40 Year Fixed

Interest Only Period:
Available for fixed period of ARM or 10 years on 30 Year and 40 Year Fixed rate products.

Amortization Period:
30 Year / 40 Year (Refer to program matrices for additional requirements)

Qualifying Rate (All Doc Types): (6.10.22)

Fixed:
Qualify borrower(s) at the Note Rate. Interest Only loan files must be qualified at fully amortized loan payment.

ARM:
5/6 Month ARM - Qualify borrower(s) at greater of the Fully Indexed Rate or Note Rate.
7/6 Month ARM & 10/6 Month ARM – qualify at the Note Rate.

Qualifying Payment:
Qualifying Ratios are based on PITIA payment with the principal and interest payments amortized over the scheduled loan. Qualifying Ratios for IO product are calculated with PITIA.

Loan Amounts (7.18.22)

Minimum Loan Amount: $150,000
Maximum Loan Amount: $4,000,000

Minimum FICO (6.14.22)

- 660

Maximum LTV/CLTV (6.14.22)

- 80%/80%

Interested Party Contributions

- 6%

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 reserverequirements. 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.

Escrows | Impound Accounts (6.14.22)

Escrows for taxes and insurance are required for all HPML loans.

Secondary Financing

Secondary financing must be institutional. Seller-held subordinate liens are not permitted. Existing secondary financing must be subordinated and recorded or refinanced, paid off or closed. HELOC CLTV must be calculated at the maximum available line amount unless the borrower can provide documentation the lineof credit is past its draw period.

Age of Documents (7.18.22)

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

Borrower Statement of Occupancy

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

Borrower Contact Consent Form

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

Ability to Repay/Qualified Mortgage Rule

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

State and Federal High-Cost Loans

High-Cost loans are not allowed

Prepayment Penalty

Not allowed

Underwriting

All files are manually underwritten

Interest Credit Closings

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

Assumability

Loans are not assumable.

Property Insurance

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 replacementcost 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 thelimitations 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 theinsurable 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.

For insurance not addressed in this section, default to Fannie Mae requirements.

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 followingapply:
  - 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 monthsare 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.
- 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.
- LTV/CLTV is based upon the current appraised value, no seasoning 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.
- Properties listed for sale must be taken off the market 90 days prior to disbursement of the refinance loan.
- Loans not eligible for cash-out:

  - A prior cash out transaction within the last 12 months unless a documented benefit exists.
  - Texas Home Equity 50 (a)6
- See Champions Funding Matrices for cash-out limits.

Seasoning Requirements:

- Cash-Out Seasoning is defined as the difference 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 (6.7.22)

- 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.

Non-Arm 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.

A non-arm's length transaction is not intended to bail out a family member who has had difficulties making their mortgage payment. A thorough review of the title report in these cases is required as well as the payment history pattern (VOM on the Seller's mortgage).

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
    - Must provide a recent 12-month VOR showing rent paid as agreed along with a copy of the seller's payoff demand showing not a foreclosure bailout
- Purchase between family members
    - Gift of Equity requires a gift letter, and the equity gift credit is to be shown on the CD
    - Must provide a 12-month mortgage history on existing mortgage securing subject property confirming Family Sale is not a foreclosure bailout
- 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 not allowed

Non-Arm's Length Restrictions (6.7.22)

- Primary residences only
- Borrower to provide verification of earnest money deposit
- Maximum LTV/CLTV of 80%
- For-Sale-By-Owner (FSBO) transactions must be arm's length
- Employer to employee sales or transfers are not allowed
- Property trades between buyer and seller are not allowed

Borrower Eligibility

Non-Occupant Co-Borrowers

Not allowed on this program

First-Time Homebuyers (7.18.22)

- Definition: An individual is considered to be a first-time home buyer if they have had no ownership interest in a residential property in the most current 3-year period.
- Minimum 660 credit score
- DTI may not exceed 50%
- Minimum 6 months reserves for Primary Residences
- Not allowed on Second Homes
- When utilizing the Alt Doc program gift funds are allowed as long as the borrower is contributing at least 5% of their own funds into the down payment.
- 12-month recent rental history required reflecting 0x30 – First Time Home Buyers are only allowed to apply a 12-month recent and satisfactory VOR towards the tradeline requirements if utilizing the three (3)tradelines reporting for 12+ months

Residency

Eligible	• U.S. Citizen • Permanent Resident Alien (see requirements that follow) • Non-Permanent Resident Alien (see requirements that follow)
Ineligible	• Applicants possessing diplomatic immunity • Foreign National • 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. • ITIN Borrowers

US Citizen

Eligible without guideline restrictions

Permanent Resident Alien

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

- Acceptable evidence of permanent residency includes the following:
  - Alien Registration Receipt Card I-151 (referred to as a green card).
  - Alien Registration Receipt Card I-551 (Resident Alien Card) that does not have an expiration dateon the back (also known as a green card).
  - Alien Registration Receipt Card I-551 (Conditional Resident Alien Card) that has an expiration date on the back and is accompanied by a copy of the filed INS Form I-751 (petition to removeconditions).
  - Non-expired foreign passport that contains a non-expired stamp (valid for a minimum of three years) reading "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until [mm-dd-yy]. Employment Authorized."

- Eligible without guideline restrictions.
- A fully executed Certification of Resident Alien Status Form must be provided at time of submission.

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.

- Legal Status Documentation
  - Valid EAD **OR**
  - Visa types allowed: E-1, E-2, E-3, EB-5, G-1 through G-5, H-1, L-1, NATO, O-1, R-1, TN NAFTA
  - If Visa status will expire within one year and prior history of residency status renewal exists, no further documentation is required. If Visa expires within six (6) months of note date, evidence of renewal filing must be provided OR documentation from current employer supporting likelihood or renewal.
- Loan terms must meet the following criteria:
  - Maximum 75% LTV/CLTV
  - Maximum 43% DTI (Expanded DTI option not available)
  - Primary Residence only
  - Two full uninterrupted years of employment in the United States is required for all borrowers whose income is being considered to qualify.

Inter Vivos Revocable Trust

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 wo (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

Ineligible Borrowers

- Irrevocable Trust | 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
- ITIN Borrowers

Credit

Credit Reports

Fannie Mae guidelines should be utilized for processing and documenting all required credit reports and determining borrower's credit eligibility.
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 updatedinformation 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 Inquiries

Any credit inquiries listed on the report within 90 days of the report date must be explained by the borrower. If new credit was extended borrowers must provide documentation on the current balance and payment. If no credit was extended borrower must state, the purpose of the inquiry. Borrowers are obligated to inform the Loan Officer of any new extension of credit,

whether unsecured or secured, that takes place during the underwriting process and up to the consummation of the loan.

Housing History

Mortgage/rental history is required for all programs. If a borrower's mortgage or rental history is not reported on the credit report, alternative documentation showing the most recent 12-month history must be provided.

Mortgage Payment History – Forbearance | Modification | Deferrals (9.16.22):

- **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 borrower's primary residence and 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.

Rental Payment History Documentation

The borrower's rental payment history must be documented for the most recent 12-month period. The following documentation is acceptable:

- Canceled checks can be provided but are not necessarily always required. In lieu of canceled checks the borrower pay provide bank statements, copies of money orders, or other reasonable methods fordocumenting the timely payment of rent. The documentation must clearly indicate the payee and amount being paid and reflect that the payments were made on a consistent basis.

- Direct verification of the payment of rent from the landlord. Direct landlord verification is acceptable whether the landlord is an individual or a professional management company. For VORs provided by private landlords, 12-months recent canceled checks and/or bank statements are required to support paid as agreed.

Borrowers who currently live rent free are permitted with supporting documentation, such as a fully executed Rent Free Letter from the current legal owner of the property borrower is residing in and may be subject to First Time Homebuyer restrictions.

Consumer Credit

Consumer Credit History

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

Installment Debt

Installment debt with less than 10 months' payments remaining may be excluded from the DTI, as long as the Borrower has the assets to make the remaining payments. Borrowers may pay down the debt such that the remaining balance is less than the sum of 10 months' payments. The assets used must be sourced. Loans secured by financial assets (i.e., 401k, margin loan, etc.) do not need to be included in the DTI provided the asset balance exceeds the loan balance.

Timeshares

Timeshare obligations will be treated as a consumer installment loan.

Student Loans:

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

If the credit report does not provide a monthly payment for the student loan, or if the credit report shows $0 as the monthly payment, the lender must determine the qualifying monthly payment using one of the options below.

If the borrower is on an income-driven payment plan, the lender may obtain student loan documentation to verify the actual monthly payment is $0. The lender may then qualify the borrower with a $0 payment.

For deferred loans or loans in forbearance, the lender may calculate

a payment equal to 1% of the outstanding student loan balance (even if this amount is lower than the actual fully amortizing payment), or

a fully amortizing payment using the documented loan repayment terms.

Alimony/Child Support

Alimony may be deducted from income rather than included as a liability, provided the alimony payments are tax deductible to the payer. Otherwise, include as a liability. Child support must

be included as a liability. Alimony orchild support with less than 10 months' payments remaining based on the Note date may be excluded from the DTI, as long as the borrower has the assets to make the remaining payments.

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 forgrade determination based upon the charge off date
- Collections and charge-offs that have expired under the state statute of limitations on debts may beexcluded. Evidence of expiration must be documented.
- Charge-offs and collections not excluded by the above bullet points must be paid or may stay open if all requirements below are met:
    - Payments for open charge-offs or collections are included in the DTI (Subject to program DTI restrictions) based on a documented payment plan AND
    - Payment plan provided documented with 3 months timely payments (may not pay in advance for qualifying AND
    - Reserves are sufficient to cover the balance of the charge-offs or collections and meet reserve requirements.

Judgment or Liens Impacting Title

All open judgments, garnishments, and all outstanding 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. Tax liens that do not impact title may remain open on purchase and rate and term refinance transactions only provided the following are met:

- The file must contain a copy of the repayment agreement, and
- A minimum of 6 payments has been made under the plan with all payments made on time (these cannot be paid in advance).

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. Bankruptcy seasoning: see program Matrix for requirements

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: see program Matrix for requirements

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 and/or 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: see program Matrix for requirements

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.
- **Alt Doc Program:** The decision score for the primary wage earner is used to qualify. The primary wage earner is defined as the borrower who earns the highest monthly income for the loan transaction.

Tradeline Requirements (7.18.22)

Standard Tradelines

- Two (2) tradelines reporting satisfactorily for 24+ months with activity in the most recent 12 months or;
- Three (3)tradelines reporting satisfactorily for 12+ months with activity in the most recent 90 days.
- If primary borrower has 3 FICO scores, the minimum tradeline requirement can be waived.

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.

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. All properties owned by the borrower 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

Current Debt Obligations, Alimony, and Child Support

A lender may use a credit report to verify a borrower's current debt obligations, unless the lender has reason to know that the information on the report is inaccurate or disputed. Obligations that do not appear on the credit report, such as alimony and child support, must be documented through other methods according to Fannie Mae guidelines.

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
    - Gross Rental Income (note: will use 75% to qualify loan)
    - Mortgage Payments
    - Other Expenses not escrowed in mortgage payment (taxes, insurance, HOA, etc.) The information stated will serve as verification of the income and expenses of the properties. No supporting documentation will be required.
- Verification of properties owned free-and-clear is required.

Assets

Documentation Options

Various forms of documentation are acceptable depending on borrower asset type. Assets and reserves should be calculated and documented to Fannie Mae guidelines unless otherwise specified in Champions Funding guidelines. Fannie Mae guidelines prevail where this guide is silent regarding sources and types of assets as well as asset types not eligible to be included. All asset statements must be dated within 90 days of note date.

Reserves (7.18.22)

Loan Amounts less than or equal to $1,500,000 require a minimum 6 months PITIA reserves.
Loan Amounts greater than $1,500,000 require a minimum 9 months PITIA reserves.
Loan Amounts greater than $2,500,000 require a minimum 12 months PITIA reserves.

- Reserves must be sourced and documented per guidelines.
- 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).
- Proceeds from 1031 Exchange cannot be used to meet reserve requirements.
- Cash out can be used as reserves.

Down Payment Sourcing

Down payment funds should be documented for at least 30 days. If it is determined the source of the down payment is another extension of credit, the borrower must qualify for secondary financing per Fannie Mae guides.

Gift Funds

Gift Funds are acceptable for a portion of the down payment if the following applies:

- A 5% down payment has been made by the borrower from their own funds and the LTV does not exceed 80%.
- Guidelines to be followed for donor relationship to borrower(s), documentation, proof of funds, and evidence of receipt.
    - A gift can be provided by:
        - the Borrower's Family Member;
        - the Borrower's employer or labor union;
        - a close friend with a clearly defined and documented interest in the Borrower;
        - a governmental agency or public Entity that has a program providing homeownership assistance to:
            - Low- to Moderate-Income families; or
            - first-time homebuyers

The gift donor may not be a person or Entity with an interest in the transaction, such as the contractor, Dealer, or any person or any other affiliated Entity.

- Documentation requirements:
  - Gifts must be evidenced by a letter signed by the donor, called a gift letter. The gift letter must:
    - Specify the dollar amount of the gift.
    - Specify the date the funds were transferred.
    - Include the donor's statement that no repayment is expected; and
    - Indicate the donor's name, address, telephone number, and relationship to the borrower.
- Verifying donor availability of funds and transfer of gift funds
  - Sufficient funds to cover the gift must be verified either in the donor's account or have been transferred to the borrower's account. Acceptable documentation includes thefollowing:
    - a copy of the donor's check and borrower's deposit slip,
    - a copy of the donor's withdrawal slip and the borrower's deposit slip,a copy of the donor's check to the closing agent, or
    - a settlement statement showing receipt of the donor's check.
  - When the funds are not transferred prior to settlement, the lender must document that the donor gave the closing agent the gift funds in the form of a certified check, acashier's check, or other official check (i.e., wire confirmation).

***Gift funds may not be used to meet reserve requirements. *Gifts not allowed for programs using Asset Qualifier as income.**

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 orservices 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 mortgagePension fund
- Seller Real Estate Tax Credit
- Foreign Assets
- IRS 1031 Tax Exchange not allowed on primary residences or second homes
- Cryptocurrency

Asset Documentation (6.7.22)

In addition to documenting the down payment, closing costs, and minimum PITIA reserve requirements, all borrowers must disclose and verify all other liquid assets. Fannie Mae guidelines prevail regarding sources and types of assets as well as assets which are not eligible for closing costs and/or reserves. All asset statements must be dated within 90 days of note date.

- Account Statements should cover most recent 30-day 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 requiredto source and document any unusually large deposits.
- VOD should be dated within 30 days of closing date.
- Stocks/Bond/Mutual Funds -100% of stock accounts can be considered in the calculation of a assetsfor closing and reserves.
- Vested Retirement Account funds – 80% may be considered for closing and reserves.
- Non-vested or restricted stock accounts are not eligible for use as down payment or reserves.
- When bank statements are used, large deposits must be evaluated. The definition of a large deposit is any deposit exceeding 50% of the Borrowers Average Monthly Income.
- 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 letterof explanation is required.
    - Asset Qualifier documentation option: Follow the guidance listed above for Refinances vs. Purchase but the large deposit is defined as 10% of the loan amount since there is no incomeor DTI listed on this program.

Assets held in foreign accounts may not be used as a source of funds to close and to meet applicable reserve requirements. These funds must be transferred to a U.S. banking institution account in the borrower's name at least 30 days prior to closing.

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 would be allowed to qualify.

Income

Income Analysis

Stability of Income

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

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

Earnings Trends

- Stable or increasing: Income amount should be averaged.
- Declining but stable: If the trend was declining but has since stabilized and there is no reason to believe that the borrower will not continue to be employed at the current level, the current, lower amount of variable income must be used.
- Declining: If trend is declining, the income is not eligible. Declining income is considered a 20% or more decrease year over year.

Debt to Income Ratio (6.14.22)

Max 50%

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

Alternative Income Documentation

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

- Non-occupant co-borrowers are not allowed
- First Time Homebuyer - gift funds allowed after Borrower contributes a minimum of 5% of their own funds for the down payment.

Alt Doc Income Documentation Options:

- Asset Qualifier
- 12 Months Bank Statements (Business)
- 1099 (IRS Form) Only
- Written Verification of Employment

Asset Utilization Qualifier (7.18.22)

Debt Ratio Calculation: Minimum Eligible Assets required is the lower of $1,000,000 or 150% of the loan balance. Qualifying income based on Total Assets Eligible for Depletion, less down payment, less out of pocket closing costs, less required reserves, divided by 84. Maximum DTI 43%.

Asset Utilization Qualifier Income Documentation

- All individuals listed on the asset account(s) must be on the Note and Mortgage;
- Assets considered for this program must be verified with most recent three (3) monthly account statements or a quarterly statement.
- Assets must be seasoned 120-days;
- Income other than Asset Utilization must be documented in accordance with the appropriate income program.

Assets Eligible for Qualifier

Assets must be liquid and available with no penalty; additional documentation may be requested to validate the origin on the funds.

- Asset must be from a U.S. Institution
- 100% of Checking, Savings, and Money Market Accounts;
- 70% of Stocks, Bonds, and Mutual Funds;
- 70% of Retirement Assets: Eligible if the borrower is of retirement age (at least 59 ½);
- 60% of Retirement Assets: Eligible if the borrower is not of retirement age.

Assets Ineligible for Qualifier

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

12 Month Business Bank Statements (6.7.22)

Income documented through the Alt Doc program method may be combined with other income sources that are documented as Standard Doc but not associated with self-employment, such as a spouse employed as a wage earner. When wage income is combined with Alt Doc, a tax return is not required for the full income documentation, as this would invalidate the bank statements. The 4506-T form is still required; however, Box 8 should be checked to obtain a transcript of W-2 earnings.

- Borrower(s) must be self-employed for at least two (2) years
- A business must be in existence for a minimum of two (2) years
- Nonprofit Entity not eligible
- Expenses must be reasonable for the type of business.
- Deposits should be reviewed for consistency.
- Deposits from alternative payment processing applications (i.e., Square, Venmo) are eligible.
- Inconsistent or large deposits should be sourced or excluded from the analysis. The definition of a large deposit is any deposit exceeding 50% of the Average monthly sales of the business.
- Changes in deposit pattern must be explained.
- Income documented separately, but co-mingled, must be backed out of deposits.

Business Bank Statements:

- Account in the name of the business reflecting only business income and expenses
- Verify that the borrower is at least 50% owner of the business by providing one of the following:
    - CPA letter, Tax Preparer letter, operating agreement, or equivalent; reflecting the borrower's ownership percentage.
- Non-borrowing owners of the business must provide a signed and dated letter acknowledging the transaction and verifying the borrower's access to the account for income calculations.
- Net income from the analysis of the bank statements must be multiplied by the borrower's ownership percentage to determine the borrower's qualifying income.
- The expense analysis method should be reasonable for the type of business being reviewed.

- Co-mingled Only: Verify that the borrower is 100% owner of the business (borrower and spouse with combined 100% ownership eligible).

Business Bank Statement Expense Ratio & Analysis:

Two (2) options exist to analyze the business accounts:

- **Option 1 - Fixed Expense Ratio (50%)**
  - 12 months of consecutive business bank statements, the most recent statement dated within 90-days of the note date.
  - A business narrative provided by the borrower's business (See Self-Employed Business Narrative Form) which includes details regarding the industry, size, and operating profile of the business, addressing location/rent, number of employees/contractors, COGS, and physical assets such as trucks/equipment (owned or leased). The business narrative form is to be completed by an employee (non-relative) of the borrower's business, with knowledge and information of the operations and finances of the business. Typical positions held by this employee would include: Controller, Treasurer, V.P. Finance, Finance Manager, or Accounting Manager. This form can also be completed by a third-party individual with direct knowledge of the borrower's business, such as Certified Public Accountant or an IRS Enrolled Agent.

- **Option 1 - Analysis:**
  - Businesses within an industry that experience higher expense ratios are not eligible for the 50% Margin method and must utilize another option. Higher expense ratio industries include, but are not limited to the following:
    - Construction
    - Manufacturing
    - Retail and Wholesale Trade
    - Hospitality, Food and Beverage Services
    - Transportation
  - The Self-Employed Business Narrative Form should be used to determine if the borrower's business is eligible for this option.
    - Determining the Qualifying Income:
      - Qualifying income is the lower of:

    - total deposits from the bank statements, minus any inconsistent deposits, multiplied by 50% Profit Margin, multiplied by ownership percentage, divided by the number of bank statements reviewed, or
  - The deposits from the most recent bank statement must be consistent with the qualifying income.
  - Champions reserves the right, at the reviewer's discretion, to require additional documentation if the expense ratio appears unreasonable for any business entity
- **Option 2 - Business Expense Statement Letter**
  - 12 months of consecutive business bank statements, the most recent statement dated within 90-days of the note date and;
  - An expense statement specifying business expenses (minimum expense ratio is 10%) as a percent of the gross annual sales/revenue, prepared and signed by either a CPA/accountant, IRS Enrolled Agent, or tax preparer; and
  - Credit file must contain documentation showing evidence of the preparers business.
- **Option 2 - Analysis**
  - Net Income is determined by the total deposits (minus any inconsistent deposits) reflected on the bank statements, less total expenses. Total expenses are calculated by multiplying the total deposits by the expense factor provided by a CPA/accountant, IRS Enrolled Agent, or tax preparer (subject to a minimum total expense percentage of 10%). Qualifying income is the lower of:
    - the net income based upon the most recent 12 months of bank statements.
  - The most recent bank statement must be consistent with the qualifying income.
  - Expenses must be reasonable for the type of business.
  - Champions reserves the right, at the reviewer's discretion, to require additional documentation if the expense ratio appears unreasonable for any business entity.

1099 (IRS Form) Only

Permitted for individual(s) earning 100% commission or for independent contractors.

- 1-year of 1099 or 1099 transcript permitted
  - One of the following Business expense analysis methods:
  - 90% Net Margin (10% Expense Factor)
  - 3rd Party prepared P&L (CPA, EA, accountant, tax preparer)
- Qualifying income is the 12 or 24 monthly average from the total number of 1099's minus the expense factor from the method chosen above

- YTD earnings must be documented to support the ongoing receipt of income showing on the 1099s by:
    - Checks or a single check stub(s) with YTD totals if available, or
    - Bank statements (YTD).
        - The YTD earnings from the total of check stubs or the tally of deposits from bank statements must be within 10% or greater than prior year earnings.

Written Verification of Employment (7.18.22)

- FNMA 1005
    - Must be completed by Human Resources, Payroll Department or Officer of the Company
- Most recent year W2
- Two (2) most recent months personal bank statements reflecting deposit(s) from employer on each statement. Must reflect deposits of at least 65% of gross wage/salary reflected on WVOE.
- W2 transcripts required
- Two-year history with same employer is required.
- Primary residence only
- 0x30x24 housing history
- Paystubs and Tax Returns not required
- First Time Homebuyer restricted to max LTV 70%, no gift funds allowed
- Borrower(s) employed by family members or related individuals are not eligible
- Only eligible source of income is limited to wage/salary. Supplemental income sources such as rental income will be documented via standard documentation channel.
- An internet search of the business is required with documentation to be included in the credit file to support existence of the business.

Property Eligibility

Appraisals

Appraisal Requirements

Full Interior / Exterior appraisal required. Fannie Mae/Freddie Mac Forms 1004/70, 1025/72, 1073/465 or 2090 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.
- Original lender to provide a signed & dated appraisal transfer letter on their letterhead stating the following:
  - Transfer of ownership and rights for the specific transaction to Champions Funding LLC.
  - Reference the borrower(s) name and subject property address.
  - Include lender certification that the appraisal complies with Federal, State, and Freddie Mac Appraisal Independence Requirements (AIR).
  - Lender certification that the appraisal was ordered and completed within TRID compliance.
- Champions Funding LLC must receive confirmation of the borrower's receipt of the appraisal
- 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 twoappraisals. The second appraisal must be from a different appraiser than the first appraisal.

- Loan amount exceeds $2,000,000
- The transaction is a flip as defined in the Property Flipping section of this guide
- As required under the Appraisal Review Products section of this guide
- If appraisal has material deficiencies

Appraisal Review Requirements

A Desk Appraisal is required on all loan amounts under $2,000,000. The options include the following:

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

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

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

Minimum Square Footage

- Single Family Residence - minimum 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 all the following conditions exists:

- The property is classified as rural by the appraiser
- Two of the three comparable properties are more than 5-miles from the subject property
- Less than 25% of the surrounding area is developed

Personal Property

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

Escrow Holdbacks

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

Ineligible Property Types (10.17.22)

- Vacant land or land development properties
- Rural
- Properties not readily accessible by roads that meet local standards
- Properties not suitable for year-round occupancy regardless of location
- Agricultural properties including farms, ranches, orchards
- Manufactured, Mobile
- Co-op/timeshare
- Condo Cooperative share loans
- Boarding houses or bed/breakfast properties
- Properties with zoning violations
- Dome or geodesic homes
- Assisted living facilities
- Homes on Indian reservations, Indian Leased Land
- Hawaii properties located in lava zones 1 and/or 2
- Houseboats
- Log homes
- Acreage > 10 acres
- No truncating allowed
- Properties used for the cultivation, distribution, manufacture or sale of marijuana.
- Appraised condition rating of C5, or C6

Declining Market (12.1.22)

5% reduction to max LTV if appraisal indicates property is located in a declining market.

Properties with C4 Condition Rating (10.17.22)

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

- Appraiser verifies no deferred maintenance or just minor cosmetic deferred maintenance.
- Appraiser notes that there are no physical deficiencies or adverse conditions.
- Photos do not reveal any physical deficiencies with property or that any part of the home is in disrepair such as graffiti, interior/exterior peeling paint, possible water stains, etc.
- There are no active renovations that have not been completed. Examples include painting, floor installation, etc.
- If any renovations need to be completed, a 1004D will be required, regardless if the appraisal is subject to or as is.
- Property cannot include an ADU.
- There are no manufactured/mobile homes on the property.
- Outbuildings and swimming pools are in good condition and do not appear to be a potential health/safety issue even if given no value.

Mixed-Use Properties

Properties that have a business use in addition to their residential use are eligible provided that special eligibility criteria are met. These businesses can include, but are not limited to, properties with space set aside for day carefacilities, beauty or barber shops, or doctor's offices.

The following special eligibility criteria must be met:

- The property must be a one-unit dwelling that the borrower occupies as a principal residence.
- The borrower must be both the owner and operator of the business.
- The property must be primarily residential in nature.
- The dwelling may not be modified in a manner that has an adverse impact on its marketability as aresidential property.
- No more than 35% of a condo project or of the building in which the project is located be commercial space allocated to mixed-use. This includes commercial space that is above and below grade.

The appraisal requirements for mixed-use properties must:

- Provide a detailed description of the mixed-use characteristics of the subject property.

- Indicate that the mixed use of the property is a legal, permissible use of the property under local zoning requirements.
- Report any adverse impact on marketability and market resistance to the commercial use of the property; and
- Report the market value of the property based on the residential characteristics, rather than of thebusiness use or any special business-use modifications that were made.

Property Flipping

For properties purchased by the seller of the property within 6 months of the application date where the contract price exceeds the seller's acquisition price by the following:

- More than a 10% price increase if the seller acquired the property in the past 90 days.
- More than a 20% price increase if the seller acquired the property in the past 91-180 days

The following additional requirements apply:

- Second appraisal required from an Approved AMC
- Second appraisal must be dated prior to the loan consummation/note date.
- 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 actual cost to construct or renovate (e.g., purchase contracts, plans and specifications, 12 months of receipts, invoices, lien waivers, etc.)

Title Vesting & Ownership

Ownership must be fee simple.
Title must be in the Borrower's name at time of application for refinance transactions and on closing date for all transactions.
Eligible forms of vesting are:

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

Ineligible forms of vesting are:

- Land trusts,
- Blind Trusts
- IRAs

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

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

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

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

Leasehold Properties

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

- Max 20 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 (8.11.22)

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

Appraisals Completed After Disaster Event

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

Condominiums (10.5.22)

Fannie Mae eligible projects are allowed.

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), with the exception of a condo hotel 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.

General Project Criteria:

- Two- to four-unit condominium projects will not require a project review provided the following are met:
  - The project is not a condo hotel, houseboat, or timeshare or segmented-ownership project.

  - The priority of common expense assessments applies.
  - The standard insurance requirements apply.
- 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.

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.

Warrantable versus Non-Warrantable Projects

Characteristic	Warrantable	Non-Warrantable
Commerical Space	≤ 35%	≤ 50%
Delinquent HOA dues	≤ 15% of units can be 60 days or more past due	≤ 20% of units can be 60 days or more past due
HOA control	Developer not in control of HOA.	Developer can be in control if Master Agreement provides for homeowners to take control upon predetermined % of unit sales or within defined time period
Investor Concentration: applies to BP loans only	≤ 50%	≤ 60%, higher with exception

Projects Eligible for Limited Review OR Review Waiver

Limited Review Eligible Transactions-Attached Units in Established Condo Projects	
Occupancy Type	**Maximum LTV/CLTV and HCLTV Ratios**
Primary (Outside of Florida)	80%
Primary (Florida)	75%
Second Home (Outside of Florida)	75%
Second Home (Florida)	70%

Unit and Project Type	Project Review Methods
Attached Condo unit in an established project	Based on the LTV, CLTV, and HCLTV ratios, occupancy, and location (projects in Florida), these projects may be reviewed using a Limited Review. Projects not meeting the Limited Review criteria must be reviewed using a • Full Review • FHA (HRAP) Project Approval (**with FNMA limited review questionnaire**)
Unit in a new or established two- to four-unit condo project	Project review is waived, with the exception of some basic requirements that apply.
Detached unit in a new or established condo project	Project review is waived, with the exception of some basic requirements that may apply.
Unit in a PUD project	Project review is waived, with the exception of some basic requirements that apply
Unit in a condo project approved by the FHA (HRAP)	FHA (HRAP) Project Approval (**with FNMA limited review questionnaire**)

Condominium Hotels (10.6.22)

- 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.

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