Streamline Jumbo Program Guideline

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Products Offered

This product description describes product guidelines and requirements for the following KFI loan programs:

- ✓ Fully Amortizing Fixed Rate 30-year term.
- ✓ Fully Amortizing Fixed Rate 15-year term.
- ✓ No Mortgage Insurance

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Streamline Jumbo Program

DU/LPA Approve/Accept Eligible or DU/LPA Approve/Accept Ineligible Due Only to Loan Amount or Maximum LTV on cash-out refinance.

FIXED RATE ONLY

Purchase / Rate & Term Refinance

Occupancy	Number of Units	Maximum Loan Amount	Maximum LTV/CLTV	Minimum Credit Score
Primary	1 Unit	$2,000,000	89.99% /89.99%*	680
		$2,000,000	80%/80%	680
		$3,000,000	80%/80%	740
	2-4 Units	$2,000,000	80%/80%	700
Second Home	1 Unit	$2,000,000	89.99%/89.99%*	680
NOO	1 Unit	$2,000,000	80%/80%	680
NOO	2-4 Units	$2,000,000	75%/75%	680

Cash-Out Refinance

Occupancy	Number of Units	Maximum Loan Amount	Maximum LTV/CLTV	Minimum Credit Score	Maximum Cash-Out
Primary	1 Unit	$2,000,000	89.99%/89.99%*	740	500K
		$2,000,000	80%/80%	680	500K
	2-4 Units	$2,000,000	75%/75%	740	500K
Second Home	1 Unit	$2,000,000	75%/75%	700	500K
NOO	1 Unit	$1,000,000	75%/75%	680	350K
		$2,000,000	75%/75%	720	350K
		$2,000,000	70%/70%	680	350K
NOO	2-4 Units	$1,000,000	70%/70%	680	350K
		$2,000,000	70%/70%	720	350K
		$2,000,000	65%/65%	680	350K

*30-Year Fixed Rate ONLY for LTV/CLTV greater than 80%

Program Highlights – Refer to Guidelines for all requirements. In addition, loan is subject to underwriter review of complete loan file.

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Borrower Eligibility

Borrowers must have reached the age at which the mortgage note can be enforced in the jurisdiction where the subject property is locate. There is no maximum age limit for a borrower.

All borrowers must have a valid social security number. SSA-89 form must be processed for every borrower.

Eligible Borrowers

- ✓ U.S. Citizens
- ✓ Permanent Resident Aliens
  - o Copy of valid resident alien card must be included in loan file.
- ✓ Non-Permanent Resident Aliens
  - o Must be legally present in the United States with an acceptable Visa type.
  - o Acceptable Visa types are as follows:
- ✓ E Series (E-1, E-2, E-3)
- ✓ G Series (G-1, G-2, G-3, G-4, G-5)
- ✓ H Series (H-1B, H-1C)
- ✓ L Series (L-1, L-1A, L-1B, Spouse L-2 with valid EAD)
- ✓ NATO Series (NATO 1-6)
- ✓ O Series (O-1)
- ✓ TN-1, Canadian NAFTA Visa
- ✓ TN-2, Mexican NAFTA Visa

See USCIS.gov for more information.

- o Must have a history of Visa renewals and a minimum of two (2) year employment history in the United States and qualifying income must be from the United States.
- o Must be able to verify that current employment has a probability of three (3) year continuance. WVOE must state three (3) year continuance within the remarks section.

- Funds to close must be deposited in a United States financial institution. No funds to close from outside the United States are allowed. This includes any amount of reserves required.

- ✓ Inter-Vivos Revocable Trusts
  - Trust must be established by one or more natural persons, individually or jointly.
  - The individual(s) establishing the trust must be primary beneficiary/beneficiaries.
  - 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.
  - At least one of the trustees must be either the individual establishing the trust, or an institutional trustee that customarily performs the duties of a trustee and is duly authorized to act as a trustee under applicable state law.
  - The mortgage and trust documents must meet agency eligibility criteria including title and title insurance requirements, as well as applicable state laws that regulate the making of loans to inter-vivos revocable trusts. See "Trust Review Procedure" for requirements.
  -
- ✓ First-Time Homebuyers
  - A first-time homebuyer is defined as a borrower who has not had ownership interest in a property within the last three (3) years from the application date.
    - Owner-Occupied Only
    - Maximum 80% LTV/CLTV
    - Maximum loan amount $2,000,000.
- ✓ Maximum for four (4) borrowers per loan
- ✓ Non-Occupant Co-Borrowers – Allowed per AUS

Ineligible Borrowers

- ✓ Borrowers with only an ITIN (individual taxpayer identification number).
- ✓ Irrevocable trusts
- ✓ Corporations, Limited Partnerships, General Partnerships, and Limited Liability Companies.
- ✓ Borrower(s) who are party to a lawsuit.
- ✓ Borrower(s) with Diplomatic Immunity.
- ✓ Foreign Nationals

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Multiple Financed Properties

The following table describes the limits that apply to the number of financed properties a borrower may have.

*Note follow all AUS requirements noted on the DU or LPA findings.

Subject Property Occupancy	Transaction	Maximum Number of Financed Properties
Primary Residence	All	No Limit
Second Home or Investment Property	All	10

The number of financed properties calculation includes:

- ✓ The number of one to four unit residential properties where the borrower is personally obligated on the mortgage(s), even if the monthly housing expense is excluded from the borrower's DTI in accordance with B3-6-05, Monthly Debt Obligations.
- ✓ The total number of properties financed, not the number of mortgages on the property or the number of mortgages sold to Fannie Mae (a multiple unit property counts as one property, such as a two-unit).
- ✓ The borrower's principal residence if it is financed and.
- ✓ The cumulative total for all borrowers (through jointly financed properties are only counted once).

The following property types are not subject to these limitations, even if the borrower is personally obligated on a mortgage on the property:

- ✓ Commercial Real Estate
- ✓ Multi-Family property consisting of more than four units
- ✓ Ownership in a timeshare
- ✓ Ownership of a vacant lot (residential or commercial), or
- ✓ Ownership of a manufactured home on a leasehold estate not title as real property (chattel lien on the home).

Reserve Requirements

Additional reserve requirements apply to second home and investment properties based on the number of financed properties the borrower will have. The borrower must have sufficient assets to close after meeting the minimum reserve requirements. See B3-4.1-01, Minimum Reserve Requirements, for the financed properties requirements.

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Ownership

Ownership must be fee simple only and must be in the name of the individual Borrower(s) or Trust. Borrower(s) may hold title as follows:

- ✓ Individual
- ✓ Joint Tenants
- ✓ Tenants in Common

Underwriting

AUS findings required with Approve/Accept Eligible or Approve/ Accept Ineligible due to only the loan amount or maximum LTV on cash-out refinance.

Minimum Loan Amount

$1 over the current one-unit conforming loan limit regardless of the subject property county or number of units.

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Occupancy

Primary Residence

A primary residence is the property that borrower occupies as his or her principal residence. At least one of the borrowers must occupy, be on title to the property and execute the Note and the security instrument. A borrower may not maintain more than one primary residence at any given time.

- ✓ 1-4 units detached, attached, PUD, and eligible condominiums.

Second Home

The property must be occupied by the borrower from time-to-time and must be suitable for year-round use. Typically, the property is located in either a resort or vacation are or for convenience in a city where a borrower works when the primary residence is a distant suburb.

- ✓ 1 unit detached, attached, PUD, and eligible condominiums.
- ✓ Property may not be a time share or subject to a rental agreement or rental pool
- ✓ The property must be reasonable distance (100 miles) from the borrower's primary residence.
- ✓ Rental income and expenses on Schedule E of the borrower's personal tax return(s) must not exceed 30 rental days.
- ✓ Rental income from a second home cannot be used to qualify the borrower.

Investment Property

An investment property is owned by the borrower but is not occupied by the borrower.

- ✓ 1-4 unit detached, attached, PUD, and eligible condominiums.

For cash-out refinance transactions of an investment property a borrower signed Business Purpose & Occupancy Affidavit indicating the loan purpose is for the acquisition, improvement or maintenance of a rental property is required to be signed prior to closing and again at closing.

Cash-out loan proceeds used for any personal use are not eligible.

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Eligible Transaction Types

Purchases

- ✓ Must adhere to agency guidelines.
- ✓ LTV/CLTV is calculated using the lesser of the purchase price or the appraised value of the subject property.
- ✓ If the seller has taken title to the subject property ninety (90) days prior to the date of the sales contract the following requirements apply.
  - o Property seller on the purchase contract is the owner of record.
  - o LTV/CLTV will be based on the lesser of the prior sales price or the current appraised value.
    - ▪ Loans that are bank or relocation sales are exempt from the above requirements.
- ✓ Personal Property may not be included in the purchase agreement/sales contract. All personal property including customary items must be deleted from the sales contract or reasonable value must be documented and the sales price will have to be lowered by the value. Including personal property in sale is considered inducement to purchase.
  - o Most built-in appliances (such as stoves, refrigerators, or dishwashers), window treatments / coverings, carpeting, or other custom-made items that are affixed to / convey with the property, are considered to be fixtures and no downward adjustment to the purchase price is required.
  - o Personal property items left for convenience (i.e., pool cleaning equipment or covers, hot tubs, lawn mowers, picnic tables and /or patio sets) would need a documented value and that amount must be downward adjusted to the purchase price. Stating these items have no monetary value is not an option.

Rate and Term Refinance

Minimum of six months seasoning from the note date of the new transaction required if previous refinance was a cash-out transaction, including pay-off of a non-seasoned subordinate lien.

- ✓ Previous CD (All Pages) and Note (All Pages) are required to be documented in the file for all refinance transactions.

For properties purchase more than six (6) months prior to the closing date the current appraised value may be used to calculate the LTV/CLTV.

For properties purchased within six (6) months of the closing date the LTV/CLTV will be based upon the lesser of the original sales price or the current appraised value conclusion from the appraiser. Original sales price will be determined form the Closing Disclosure form the subject acquisition transaction.

Inherited properties are exempt from seasoning requirement. LTV/CLTV will be calculated off current appraised value providing documentation is obtained to prove that subject property was inherited.

- ✓ Decedent’s death certificate
- ✓ Order from Probate Court (if applicable)
- ✓ Copy of Trust (if applicable)

- ✓ Copy of Will (if applicable)

The mortgage amount may include the:

- ✓ Principal balance of the exiting first lien.
- ✓ Payoff of a purchase second lien.
- ✓ Payoff of a co-owner pursuant to a written agreement.
- ✓ Financing of the payment of prepaid items and closing costs.
- ✓ Payoff of a non-purchase second lien seasoned a minimum of 12 months from date of the application. The second lien must not evidence draws exceeding $2,000 within the past twelve months form the date of the application. Withdrawal activity must be documented by a transaction history of the line of credit supplied by existing lender.

Cash back to the borrower is limited to lesser of $2,000 or 1% of the new loan.

Principal reduction is permitted up to a maximum of $2,000.

Properties listed for sale are ineligible for refinance unless the listing was withdrawn (or expired) prior to the date of closing.

- ✓ Documentation must be obtained that listing has been cancelled /withdrawn from listing agent and a signed and dated letter of explanation from the borrower must confirm the decision to retain the home and certify that they will remain in home for the next 12 months.

Cash-Out Refinance

Borrower must have held title for a minimum of six (6) months from disbursement date.

- ✓ Previous CD (All Pages) and Note (All Pages) are required to be documented in the file for all refinance transactions.

Properties listed for sale are ineligible for refinance unless the listing was withdrawn (or expired) prior to the date of closing.

- ✓ Documentation must be obtained that listing has been cancelled /withdrawn from listing agent and a signed and dated letter of explanation from the borrower must confirm the decision to retain the home and certify that they will remain in home for the next 12 months

Cash-Out is limited to the maximum amount of stated on the Product Matrix.

Continuity of Obligation

For a refinance transaction to be eligible for purchase there must be a continuity of obligation of the outstanding lien that will be paid through the refinance transaction.

Continuity of obligation is met when any one of the following exists:

- ✓ At least one borrower is obligated on the new loan who was also the borrower obligated on the existing loan being refinanced.
- ✓ The borrower has been on title and residing in the property for at least 12 months and has either paid the mortgage for the last 12 months or can demonstrate a relationship (relative, domestic partner, etc.) with the current obligor.
- ✓ The loan being refinanced and the title to the property are in the name of a natural person or a limited liability company (LLC) if the borrower owns at least 100% of the LLC prior to transfer. This must be confirmed by K1 and current CPA letter confirming ownership percentage. Transfer of ownership from a corporation to an individual does not meet the continuity of obligation requirement.
- ✓ The borrower has recently been legally awarded, the property (divorce, separation, or dissolution of a domestic partnership).
  - Must be documented within the loan file. A transaction that requires one owner to buy out the interest of another owner (for example, as a result of a divorce settlement or dissolution of a domestic partnership) is considered a limited cash-out refinance if the secured property was jointly owned for at least 12 months preceding the disbursement date of the new mortgage loan.
  - All parties must sign a written agreement that states the terms of the property transfer and the proposed disposition of the proceeds from the refinance transaction. Except in the case of recent inheritance of the subject property, documentation must be provided to indicate that the security property was jointly owned by all parties for at least 12 months preceding the disbursement date of the new mortgage loan.
  - Borrowers who acquire sole ownership of the property may not receive any of the proceeds from the refinancing. The party buying out the other party's interest must be able to qualify for the mortgage pursuant to underwriting guidelines.

Loans with an acceptable continuity of obligation may be underwritten, priced as either cash-out or limited cash-out refinance transactions based on the requirements for each type of transaction.

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Delayed Financing Refinance

Delayed financing refinances in which the borrowers purchased the subject property for cash within ninety days (90) from the date of the application are eligible for delayed financing exception. Cash back to the borrower more than the original purchase price or appraised value (whichever is less) is not allowed. Delayed financing refinances are underwritten as rate and term refinances and are not subject to cash-out refinancing program limitations. Property may not be located in Texas.

- ✓ A closing disclosure is required to document no mortgage financing was used to obtain the subject property.
- ✓ The original purchase transaction was an arms-length transaction.
- ✓ The borrower(s) must have initially purchased the property as one of the following:
  - A natural person
  - An eligible inter vivos revocable trust, when the borrower is both the individual establishing the trust and the beneficiary of the trust
  - an LLC or partnership in which the borrower(s) have an individual interest or joint ownership of 100%
- ✓ The original purchase transaction is documented by a CD, which confirms that no mortgage financing was used to obtain the subject property. (A recorded trustee's deed confirming the amount paid by the grantee or trustee may be substituted for the CD if the CD was not provided to the purchaser at the time of sale.)
- ✓ The source of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property).
- ✓ If the source of funds used to acquire the property was a unsecured loan or loan secured by an asset other than the subject property (such as a HELOC secured by another property), the CD for the refinance transaction must reflect that all cash-out proceeds be used to pay off or pay down, as applicable, the loan used to purchase the property. Any payments on the balance remaining from the original loan must be included in the debt-to-income ratio calculation for the refinance transaction. *Note: Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage.
- ✓ The new loan amount can not be more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan (subject to the maximum LTV, CLTV, and HCLTV ratios for the cash-out transaction based on the current appraised value.
- ✓ All other cash-out refinance eligibility requirements are met. Cash-Out pricing is applicable.

Contract for Deed / Land Contract

Contract for Deed / Land Contracts are ineligible.

Construction Loan Refinancing

Construction loan refinances are eligible as rate and term or cash-out refinance and must meet the following criteria:

- ✓ Only the permanent financing on a construction to perm loan is eligible. Single closing construction permanent loan refinances are ineligible.
- ✓ Borrower must have held title to the lot for a minimum of six (6) months prior to the closing of the permanent loan.
- ✓ The LTV/CLTV will be based on the current appraised value if the borrower has held title to the loan for 12 or more months prior to the closing date of the permanent loan.
- ✓ If the lot was acquired less than 12 months before the closing date of the permanent loan the LTV/CLTV will be based on the lesser of:
  - The original purchase price of the lot plus the total acquisition costs (sum of construction costs) or;
  - The current appraised value of the lot plus the total acquisition costs. (Appraisal must reflect the appraised value of the lot alone)
- ✓ Appraisals final inspection is required
- ✓ A certificate of occupancy is required from the applicable governing authority. If the applicable governing authority does not require a certificate of occupancy proof must be provided.
- ✓ Construction loan refinances in which the borrower has acted as the builder are not eligible for purchase.

Non-Arm's Length Transactions

All of the parties to a transaction should be independent of one another. Except as indicated below if a direct relationship exists between or among the parties, the transaction is non-arm's length, and the related loan is not eligible. The following transactions are eligible provided that such transactions and the related circumstances are properly documented:

- ✓ Sales or transfers between members of the same family.
  - Transaction may not be due to any adverse circumstances. Documentation is required to show that seller is not in default.
- ✓ Property seller acting as his or her own real estate agent. Meaning real estate agent or attorney must prepare the contract.
- ✓ Borrower acting as his or her own real estate agent. Meaning real estate agent or attorney must prepare the contract.
- ✓ Borrower is the employee of the originating lender/broker.
- ✓ Borrower purchasing from his or her current landlord (cancelled checks or bank statements required to verify satisfactory pay history between borrower and landlord. VOM is not acceptable.
- ✓ Investment property transactions must be arm's length.

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Credit Documentation Requirements

For scenarios not specifically address in the AUS findings or chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020 (or later) or Sections 5102 through 5500 of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020 (or later) below please contact brokerscenarios@keystonefunding.com for additional assistance.

Credit Documents Age

Follow the DU and the requirements in chapters B3-3 through B3-6 for the Fannie Mae Single Family Selling Guide, published June 3, 2020 (or later) or follow the LPA and the requirements in Sections 5102 through 5500 of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020 (or later). If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mace guides the guide requirements must be followed.

Credit Score

The representative credit score for qualification purposes for an individual borrower is the middle score of the three (3) scores reported. If two (2) scores are reported the representative credit score is the lower of the two scores. Credit scores from all three repositories must be requested (Equifax, Experian and TransUnion).

For multiple borrowers the credit score is the lowest of all representative credit scores.

If only one credit score or no credit score is reported borrower is not eligible. A minimum of three credit scores is required for all borrowers.

No borrower in a transaction may have frozen credit. If a borrower has frozen credit and unfreezes their credit after the original credit report was ordered, a new credit report must be obtained to reflect current and updated information for evaluation.

Credit rescores are not permitted unless the rescore is correcting an erroneous line items or disputed items.

See the loan product matrix for minimum credit score requirements.

Minimum Credit Requirements

Follow the DU and the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020 (or later) or follow the LPA and the requirements in Sections 5102 through 5500 of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020 (or later). If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guides the guide requirements must be followed.

Mortgage/Rental History

- ✓ A minimum of twenty-four (24) months verified housing history is required with 0X30 payment history.
- ✓ Borrowers with no mortgage/rental history due to a residence scenario requiring no mortgage or rental payments are eligible providing a satisfactory letter of explanation is provided along with the owner of the property they have been residing with confirms the explanation.
- ✓ If primary residence housing history reflects a forbearance arrangement, the payment history must reflect 0X30 in the most recent 24 months since exiting forbearance. The payment history must be provided by the lender/servicer.

Credit Inquiries

- ✓ All inquiries that have taken place within 120 days of the credit report date must be explained by the borrower and documented accordingly.
- ✓ Borrower(s) must be qualified with any new debt.

Liens, Judgments and Collections

- ✓ Satisfactory explanation for any delinquent credit from the borrower is required.
- ✓ Borrower must pay off all delinquent credit that has the potential to impact lien position.
- ✓ Collection accounts or charged-off accounts do not need to be paid off if the balance of an individual account is less than $1,000.00 or if there are multiple accounts the total balance of all accounts cannot exceed $2,500.00.

Foreclosure, Deed-In-Lieu of Foreclosure, Bankruptcy or Short Sale

- ✓ At least seven (7) years mut have elapsed since bankruptcy discharge or dismissal, foreclosure, notice of default (NOD), short sale or deed-in-lieu measured from the date of completion to the date of application.

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Employment and Income

Follow the DU and the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020 (or later) or follow the LPA and the requirements in Sections 5102 through 5500 of the Freddie Mac Single Family Seller/Servicer Guide, published June 10, 2020 (or later). If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guides the guide requirements must be followed. The file should include an Income Analysis form detailing income calculations.

For information regarding employment and income requirements not addressed below please contact brokerscenarios@keystonefunding.com.

Employment and Income Stability

Borrower(s) must have a minimum of two (2) years employment and income history on the 1003.

Salaried Borrowers:

- ✓ Most recent 30 days consecutive paystubs are required.
- ✓ Most recent two (2) years W-2's is required for all employment.
- ✓ Written Verification of Employment is required for past two years of employment history.
    - The written VOE must cover 24 months of employment. If the borrower has changed jobs during the past two years, the written VOE must show the start and end dates for each job to verify a complete two-year work history. The VOE(s) documenting prior employment, not including the current employer, must be dated prior to closing, but are not required to be dated within ten (10) calendar days prior to closing. Any employment gaps one (1) month or grater must be addressed with a satisfactory signed letter of explanation from the borrower. Closing in this section is defined as the notary date on the security instrument
- ✓ Signed 4506-C (Processed for 1040 transcripts)

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Salaried Borrowers with Commission and/or Bonus

Commission income must be documented with a written VOE breaking down the bonus or commission income for the past two (2) years. If unable to obtain the breakdown borrower must provide the year-end paystubs for the past two years plus YTD to complete the qualifying income calculation. This does not take the place of a WVOE. Year end paystubs would be if used for example with The Work Number and the breakdown was not provided.

Verbal VOE:

Verbal VOE of current employment dated within ten (1) calendar days prior to closing documented in writing is required.

Tax Transcripts

Tax transcripts are required to be obtained from the IRS only for income for years being used for qualification. Wage transcripts are not acceptable in lieu of W2's. Borrower pulled transcripts are not acceptable. The IRS transcripts and the supporting income documentation provided by the lender must be consistent.

Self-Employed Borrowers:

Borrowers with a 25 percent or greater ownership interest in a business are considered self-employed and will be evaluated as a self-employed borrower for underwriting purposes.

- ✓ Follow the DU and the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020 (or later) or follow the LPA and the requirements in Sections 5102 through 5500 of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020 (or later). If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guides the guide requirements must be followed.
- ✓ If the tax return for the previous tax year is not filed a 12-month P&L and balance sheet for this period is required.
- ✓ If the most recent year's tax returns have not been filed by the IRS deadline, an executed copy of the borrower's extension request for both personal and business tax returns must be provided.
- ✓ Signed IRS Form 4506C.

Additional Requirements for P&L, Balance Sheet, and Business Bank Statements for Self-Employment Income used to Qualify:

Underwriter should apply due diligence and review the actions of the business and any impact the current economic environment has taken on the flow of income in order to determine if the borrower's income is stable and there is a reasonable expectation of continuance.

The underwriter must include comments/justification of their analysis to clearly explain their conclusion of the effect to the business. Due to the pandemic's continuing impact on businesses, the borrower(s) must provide the following documentation to support the decision that the self-employment income meets requirements:

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- ✓ (1) An audited year-to-date P&L, good thru the month preceding the Note date, reporting all business revenue, expenses, and net income up to and including the most recent month preceding the Note date, and (2) a Balance Sheet; **or** *
- ✓ (1) An unaudited year-to-date P&L, good thru the month preceding the Note date, reporting all business revenue, expenses, and net income up to and including the most recent month preceding the Note date, and (2) business bank statements form the most recent three months represented on the year-to date P&L and (3) a Balance Sheet. *
    - The three most recent bank statements must support and/or not conflict with the information presented in the current year-to-date P&L statement. Otherwise, the borrower must provide additional statements or other documentation to support the information from the current year-to-date P&L statement.

*Audited year-to-date P&L can be used as qualifying income in conjunction with the two years personal and business returns (averaged).

*Unaudited year-to-date P&L cannot be used as qualifying income and is only used to show stability of business in conjunction with the three months business bank statements.

Small Business Administration (SBA) Loans and Grants Requirements

The existence of a Paycheck Protection Program (PPP) loan or any other similar COVID related loan or grant could be helpful information in analyzing the borrower's business.

PPP loan terms allow deferred payments for a specified period, no personal loan guarantee, and the potential for all or some portion of the loan to be forgiven.

Therefore, a payment for the PPP loan does not need to be included in the borrower's liabilities at this time. Once it has been determined that any portion of the PPP loan must be repaid, following the requirements of the "Employment and Income" and "Debts and Liabilities" sections of these guidelines.

Proceeds from the PPP loan must not be included as business income or assets.

PPP loan proceeds cannot be used for the subject transaction down payment, closing costs prepaids or reserves.

Follow all requirements in this section for underwriting self-employed borrowers.

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Verification of Active Business

The lender must verify the existence of the borrower's business within ten (10) calendar days prior to closing. Methods of verifying business include:

Verification from a third party such as a CPA, regulatory agency or by an applicable licensing bureau. If CPA letter is used it must affirm that they prepared the borrower's tax returns and that the borrower is self-employed.

- Borrower's Name
- Borrower's business name, address and phone number
- Nature of Business
- Number of years the borrower has been in this business
- Percentage of Ownership
- Time since when the CPA has prepared the borrower's tax returns
- Fact that the borrower reviewed the tax returns prior to their filing by the CPA
- Signature: The letter should be signed and dated by the CPA
- Letterhead: The letter should be on the CPA's letterhead

Underwriter Document Review

- ✓ Content: The letter contains information listed above and matches to loan file.
- ✓ Independent Verification: Verify the CPA license for the State in which the CPA is licensed. This should be documented within the loan file.
- ✓ Comparison with Tax Returns: The CPA's information in the letter should be compared to the information in the tax returns that were provided by the borrower. The CPA's information on the two documents should match.

Prior to issuing any letters, licensed tax preparers and CPA's must consider the scope of their relationship with the borrower. Only affirm factual information and do not provide any forward-looking statements, projections, or opinions. It is advisable to make it clear in the letter that the CPA is not providing any assurance as to the creditworthiness of the borrower. KFI as the lender assumes that the underwriter will perform its own due diligence and the letter does not create any legal relationship or obligation of the licensed tax preparer or CPA.

Tax Transcripts

Tax Transcripts are required to be obtained from the IRS only for income for years being used for qualification. Borrower pulled transcripts are not acceptable. The IRS transcripts and the supporting documentation provided by the lender must be consistent.

In the case of "No Record Found" this is not acceptable, and the loan will not be eligible.

In the case of "Code 10" the "Code 10" error will have to be documented within the loan file and borrower provided transcripts would be acceptable only in this case.

Other Income

For all other acceptable income sources.

Follow the DU and the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020 (or later) or following LPA and the requirements in Sections 5102 through 5500 of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020 (or later). If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guides the guide requirements must be followed.

*The grossing up of non-taxable income is not allowed.

Unacceptable Income

- ✓ Any source that cannot be verified
- ✓ Restricted Stock Income (RSU)
- ✓ Income that is temporary in nature. This includes if borrower has history working for a temporary agency.
- ✓ Rental Income (Boarder Income) received the borrower's primary residence.
- ✓ Expense Account Payments
- ✓ Retained Earnings
- ✓ Automobile Allowances

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Debts and Liabilities

For information regarding the treatment of debts and liabilities not addressed below please contact brokerscenarios@keystonefunding.com for additional assistance.

Debt-to-Income Ratio

The debt-to-income (DTI) ratio is based on the total of existing monthly liabilities and any planned future monthly liabilities divided by gross monthly income. Liabilities include but are not limited to all housing expenses, revolving debts, installment debts, other mortgages, rent, alimony, child support, and other consistent and recurring expenses. The underwriter must ensure that all liabilities are included in qualifying.

- ✓ Max allowed DTI is 45% back end.

Installment Debt

Follow the DU and the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020 (or later) or follow the LPA and the requirements in Sections 5102 through 5500 of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020. If a discrepancy exists between DU and the aforementioned Fannie Mae guide of LPA and th aforementioned Freddie Mac guides the guide requirements must be followed.

Home Equity Line of Credit (HELOC)

For HELOC loans paid off at closing the line must be closed to any future draws. Requirement on title commitment for payoff and cancellation of HELOC is acceptable to document.

Subordination of HELOC loans is permitted up to maximum CLTV per matrix. The CLTV should be calculated using the full amount of any HELOCs (whether or not funds have been drawn).

Sale of Departing Residence of Conversion of Departing Residence to Investment Property

Follow the DU and the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020 (or later) or follow the LPA and the requirements in Sections 5102 through 5500 of the Freddie Mac Single Family Seller /Servicer Guide, published June 10, 2020 (or later). If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guides the guide requirements must be followed.

- ✓ Please note that a fully executed CD showing the sale of the exit property must be obtained on or before closing. The use of a purchase agreement with no contingencies for omission of the REO debt is not acceptable and loan would be ineligible.

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Assets and Source of Funds

For information regarding assets and source of funds not addressed below please contact brokerscenarios@keystonefunding.com for additional information.

Source of Funds

Follow the DU and the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020 (or later) or follow the LPA and the requirements in Sections 5102 through 5500 of the Freddie Mac Single Family Seller /Servicer Guide, published June 10, 2020 (or later). If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guides the guide requirements must be followed.

- ✓ Please note that Gifts of Equity are not allowed.
- ✓ Cryptocurrency is not allowed.
- ✓ Gift Funds from related (relative or any other acceptable donor per agency guidelines) real estate agent are not allowed.

Cash Reserves

Follow the greater of the AUS reserve requirement or below requirements.

If AUS does not provide minimum reserve requirements follow the below requirements:

LTV/CLTV less than or equal to 80%
Loan Amount less than or equal to $1,000,000 – Follow the AUS requirements.
Loan Amount greater than $1,000,000 and less than or equal to $2,000,000 – 3 months PITIA reserves

LTV/CLTV greater than 80%
6 months PITIA reserves

Reserves must be verified and comprised of liquid assets that the borrower can readily access. Equity lines of credit, gift funds, business assets and cash out from the subject property on refinance transactions are not acceptable sources to meet the reserve requirement.

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Property

Eligible Property Types

- ✓ 1-4 unit attached/detached owner-occupied and non-owner-occupied properties.
- ✓ 1-unit second homes.
- ✓ Low/Mid/High-Rise new and established agency warrantable condominiums. Condominiums with HOA in litigation are ineligible no matter the cause of the litigation. Minimum square footage of 400.
- ✓ Planned Unit Development
- ✓ Maximum lot size 20 acres. Properties with greater than 10 acres must have three comparable with similar acreage.

Ineligible Property Types

- ✓ Manufactured Homes
- ✓ Factory Built Housing (Modular)
- ✓ Geodesic/Dome Homes
- ✓ Properties held in leasehold
- ✓ Condo Hotel Units
- ✓ Log Homes
- ✓ Unwarrantable Condominiums
- ✓ Timeshare Units
- ✓ Co-Ops
- ✓ Unique Properties
- ✓ Mixed Use Properties
- ✓ Commercially Zoned Properties
- ✓ Agriculturally Zoned Properties (Agricultural/Residential Eligible)
- ✓ Rural Zoned Properties
- ✓ Properties with an oil and gas lease
- ✓ Properties with more than 20 acres
- ✓ Working Farms

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Declining Markets

Reduce maximum LTV/CLTV by 10% for any property located in an area of declining property values as reported by the appraiser.

Land-to-Value

The property site should be of a size, shape, and topography that is generally conforming and acceptable in the market area. It must also have competitive utilities, street improvements, adequate vehicular access, and other amenities. As amenities, easements, and encroachments may either detract from or enhance the marketability of a site, the appraiser must reflect them in his or her analysis and evaluation. The appraiser must comment if the site has adverse conditions or if there is market resistance to a property because the site is not compatible with the neighborhood or the requirements of the competitive market, and assess the effect, if any, on the value and marketability of the property.

Appraisal Requirements

- ✓ All appraisals must be completed on the most current Agency appraisal forms as stipulated in the Seller's Guide and conform to Agency appraisal practices.
- ✓ Property Inspection Waiver (PIW) not allowed.
- ✓ Properties must be appraised within 120 days of the note date.
- ✓ Two (2) full appraisals are required for loan amounts greater than $1,500,000. LTV/CLTV will be based on the lower of the two values. All inconsistencies between the two appraisals must be addressed and reconciled.
- ✓ Appraisals transferred or assigned from another lender are not acceptable.
- ✓ Appraisals must not be over 120 days old from the date of the Note. If appraisal is over 120 days old a recertification of value needs to be performed.

Third Party Appraisal Review

- ✓ The seller must order a Collateral Desktop Analysis (CDA) from Clear Capital for each loan with a collateral underwriter score greater than 2.5.
- ✓ The Collateral Desktop Analysis report must not be over 120 days old from the date of the Note.
- ✓ If the desk review produces a value in excess of a 10% negative variance to the apprised value, the loan is not eligible for purchase; provided, the underwriter has the option to them ask to order a field review to support the appraised value. If a field review also then produces a value in excess of a 10% negative variance to the appraised value, then the loan will remain ineligible for purchase.
- ✓ All appraisals are reviewed for eligibility as well as value support.

Properties Located in a Disaster Area

The following is required for properties located in a FEMA declared disaster zone to be eligible for purchase.

- ✓ If the property is in a zone where a Disaster End Date has been declared by FEMA, KFI will order a post disaster inspection prior to allowing the loan to close to confirm that the subject property has not been impacted by the disaster.
- ✓ If the property is in a zone where a Disaster End Date has not been declared by FEMA, in addition to the above inspection requirement, a date and time stamped area map from a state or county agency or similar, showing the subject property in relation to the disaster area is required to evidence that the property is outside of current know affected boundaries.

Additional Loan Attributes and Polices

Subordinate Financing

Allowed up to maximum CLTV per matrix. Secondary financing terms must conform to Agency guidelines.

The CLTV should be calculated using the unpaid principal balance on all closed-end subordinate financing and the full amount of any HELOCs (whether or not funds have been drawn).

Chain of Title

All transactions required a minimum of twelve (12) month chain of title.

Balloon Mortgage

Balloon mortgages are not eligible for purchase.

Recasting/Re-amortization

Recasting or re-amortized transactions are not eligible.

Temporary Buydown

Temporary buydown mortgage loans are not eligible.

Prepayment Penalty

Mortgage loans with prepayment penalties are not eligible.

Interested Party Contributions

Interested party contributions include funds contributed by the property seller, builder, developer, real estate agent 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.

- ✓ LTV between 75.01% - 89.99% max 6% contribution allowed.
- ✓ LTV <75% max 9% contribution allowed.
- ✓ Non-owner-occupied properties max 2% contribution allowed.

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Seller Concessions / Contribution

Seller contributions in excess of the interest party contribution limits or contributions not being used for prepaid expenses or closing costs are considered seller concessions. The amount of the seller concession must be deducted from the purchase price and appraised value to determine the LTV.

HERO/PACE/Solar Panels

Any item that will include a UCC lien associated with the property and/or will create an easement on title is ineligible.

Payoff of a HERO lien is considered cash-out.

Hazard Insurance

Properties where the insurance coverage on the declaration page does not cover the loan amount must have a cost estimate from the insurance company or agent evidencing the property is insured for its replacement cost.

Escrows

Escrow accounts may be created for funds collected by the originator to pay taxes, hazard insurance, flood insurance, special assessments, water, sewer, and other items as applicable.

All applicable loans must adhere to HFIAA regarding mandatory flood insurance escrow requirements for properties located in Special Flood Hazard Area.

Escrow holdbacks are not permitted.

Title and Closing Documentation

Title insurance must meet Agency requirements and be written on the 2006 American Land Title ALTA form providing gap coverage or the ALTA short form. Other state forms may be used in stated in which standard ALTA forms of coverage are not used or in which the 2006 ALTA forms have not been adopted. If alternative forms are used, the lender must ensure that those amendments provide the same coverage.

- ✓ The title policy should include all applicable endorsements issued by a title insurer qualified to do business in the jurisdiction in which the mortgage insurance property is located, including the endorsements for Condominiums, PUDs, and ARM loan types.
- ✓ The title insurance coverage must include an environmental protection lien endorsement (ALTA 8.1-06 or equivalent state form).
- ✓ The title insurance policy must ensure the mortgagee and its successors and assigns as to the first priority lien of the loan amount oat least equal to the outstanding principal balance of the loan.

- ✓ A statement by the title insurance company or closing attorney on such binder or commitment that the priority of the lien of the related Mortgage during the period between the date of the funding of the related mortgage loan and the date of the related title policy (which title policy shall be dated the date of recording of the related Mortgage) is insured.
- ✓ Any existing tax or mechanic's liens must be paid in full through escrow.