Sharp Advantage

NON-QM UNDERWRITING GUIDELINES

Effective September 18, 2026

First Colony

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1.0 COMPLIANCE AND REGULATORY

1.1 Ability To Repay (ATR)

All loans subject to the general ATR underwriting standards (12 C.F.R 1026.43(c)) require a creditor to make a reasonable, good-faith determination that the consumer has a reasonable ability to repay the loan prior to or at consummation. A reasonable, good-faith ATR evaluation must consider the following eight underwriting factors based on available information in the mortgage loan file using reliable third-party records:

- Income or assets used to repay the loan.
- Employment status.
- Monthly mortgage payment on the subject loan (fully indexed, fully amortizing).
- Monthly payments for any simultaneous loans secured by the subject property.
- Monthly payments for property taxes, hazard insurance, HOA fees, or ground rents.
- All debts (reported by a credit bureau or disclosed by the consumer) alimony, child support, and any debts with less than 10 payments excluded from DTI.
- Monthly DTI or residual income.
- Credit history.

1.2 Exceptions & Items Not Addressed in this Guide

Unless otherwise stated, Fannie Mae definitions, required documentation and underwriting guidelines should be followed. Additionally, while these Underwriting Guidelines are intended to be comprehensive, they may not encompass all specific loan or borrower scenarios.

In the event the underwriter determines an exception is warranted, the exception will be considered case by case, with compensating factors such as the below:

- The borrower's residential payment history for 24 months is 0x30
- 6 months reserves greater than the program required
- FICO points greater than 20 points over required
- DTI >10% below the program requirements or DSCR >1.15
- LTV 10% below the maximum allowed
- The borrower has additional income that is not used to qualify

All exceptions will be reviewed by the underwriting manager.

1.3 Fair Lending

FCM strictly complies with all applicable federal, state, and local requirements related to fair lending, including the Equal Credit Opportunity Act and the Fair Housing Act (together, the "Fair Lending Requirements"). Accordingly, in connection with its decision to purchase loans, FCM will not discriminate on any prohibited basis. FCM will also not knowingly purchase loans from Sellers engaged in practices that violate Fair Lending Requirements. To the extent a Seller is found to be engaging in practices that may violate Fair Lending Requirements.

1.4 Home Mortgage Disclosure ACT (HMDA)

FCM will comply with the Home Mortgage Disclosure Act (HMDA), including without limitation all data collection, recordkeeping, and reporting requirements.

1.5 Higher Priced Mortgage Loan (HPML)

If a loan is Higher Priced Mortgage Loan as defined by the *Consumer Finance Protection Bureau*.

Higher Priced Mortgage Loans are permitted with certain restrictions:

- Escrow accounts are required.
- A Full Interior/Exterior Appraisal is required to include a certification from the appraiser indicating that the appraisal was prepared in accordance with the requirements of title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, as amended (12 U.S.C. 3331 ET SEQ.), and any implementing regulations.

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- On a purchase transaction, a second appraisal is required if:
  - If the seller acquired the property within the past 90 days and the new purchase price is more than 10% of the seller's acquisition price OR
  - If the seller acquired the property within the past 91 to 180 days and the new purchase price is more than 20% of the seller's acquisition price.
  - The second appraisal must be obtained prior to the note date.
  - The second appraisal must be provided to the borrower (standard delivery requirements apply).
  - The cost of the second appraisal may not be passed along to the borrower.
- Note that the timelines are measured from the date the seller became the legal owner of the property and the date all parties signed the purchase agreement.
- If the seller acquired the property through the following methods, a second appraisal is not required:
  - Bridge loans (for 12 months or less),
  - Reverse mortgages,
  - Loans for the initial construction of a dwelling – note that this is for a true construction loan, not for the end loan purchase of a newly constructed property,
  - A local, state, or federal government agency,
  - Through a foreclosure or deed in lieu, or
  - Inheritance or through a dissolution of marriage, civil union or domestic partnership, or through the partition of the seller's joint or marital assets.

1.6 Maximum Interest Credit

FCM will allow an interest credit through the 5th of the month.

1.7 Assumability

Loans are not assumable, regardless of loan program.

1.8 Net Tangible Benefit

Unless the mortgage loan is being originated as a Business Purpose loan, originators must ensure the transaction provides a net tangible benefit to the borrower(s). Examples of tangible benefits include but are not limited to:

- financing the acquisition of a property
- reducing the cash expenditure required to service an existing mortgage
- lowering the interest rate of an existing mortgage
- extending the period during which the interest rate on an existing mortgage is fixed
- extending the term of an existing mortgage
- obtaining additional cash proceeds through a cash-out refinance.

The tangible benefit provided to the borrowers by the Loan must exceed the borrowers' cost to acquire the Loan.

1.9 Quality Control

FCM applies its Quality Control Policy and Procedures to loans originated, ensuring the quality of loans for underwiring, compliance purposes.

1.10 Qualified Mortgage

The Sharp Advantage loan programs are structured as Non-Qualified Mortgage (Non-QM) therefore QM Safe harbor or Rebuttable Presumption requirements do not apply, but rather still must meet the ability to repay standard.

1.11 Regulatory Compliance

All loans originated by FCM will be in compliance with all federal, state, and local laws including without limitation, all statutes, regulations, ordinances, administrative rules, and orders that have the effect of law, and judicial rulings and opinions, that apply to any of their origination, selling, or servicing practices or other business practices and related technology. FCM will comply with any applicable law that addresses fair housing, fair lending, equal credit opportunity, truth in lending, wrongful discrimination, appraisals, real estate settlement procedures, borrower privacy, data security, escrow account administration, mortgage insurance cancellation, debt collection, credit

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reporting, electronic signatures or transactions, predatory lending, anti-money laundering, terrorist activity, ability to repay, state community and marital property, or the enforcement of any of the terms of the mortgage. FCM will establish appropriate facilities and processes for monitoring applicable legal developments and implementing appropriate measures to stay in compliance with applicable law and will be able to demonstrate satisfactory performance of its legal compliance.

1.12 State and Federal High-Cost Loans

FCM does not purchase loans that are subject to the Home Ownership and Equity Protection Act of 1994 (HOEPA), also known as "federal high cost" mortgages.

Further, with the exception of loans that comply with N.Y. Banking Law § 6-M (New York Subprime), FCM does not purchase mortgage loans that meet the definition of "high cost," "high risk," "covered," "subprime," or any similar designation under state or local law.

New York Subprime Definition:
Subprime home loan means a home loan in which the initial interest rate or the fully-indexed rate, whichever is higher, exceeds by more than one and three-quarters percentage points for a first-lien loan, or by more than three and three-quarters percentage points for a subordinate-lien loan, the average commitment rate for loans in the northeast region with a comparable duration to the duration of such home loan, as published by the Federal Home Loan Mortgage Corporation (herein "Freddie Mac") in its weekly *Primary Mortgage Market Survey* (PMMS) posted in the week prior to the week in which the lender provides the Loan Estimate.

1.13 State Licensing

FCM will comply with all applicable state licenses and registration requirements in connection with mortgage loan origination and any other related business activities, which include without limitation:

- Ensuring that each loan officer/originator/broker involved in the origination of loans are appropriately licensed.
- Maintaining appropriate organizational licensure based on type and location of the activities it engages in.

1.14 TILA-RESPA Integrated Disclosure (TRID)

All loans must comply with TRID rules except for loans originated solely for business purposes, as defined in *12 CFR 1026.3(a)(1)of Regulation Z.*

As used in this Guide, a "Business Purpose Loan" means a loan:

- Single Family Non-Owner Occupied: To acquire, improve or maintain rental property (regardless of the number of housing units) that is not owner-occupied. This includes, for example, a single-family house that will be rented to another person to live in. If the owner expects to occupy the property for more than 14 days during the coming year, the property cannot be considered non-owner-occupied, and this special rule will not apply. For example, a beach house that the owner will occupy for a month in the coming summer and rent out the rest of the year is owner occupied and is not Business Purpose Loan.
- Loans meeting this definition of "Business Purpose" are not subject to ability to repay and TRID disclosure requirements; borrower(s) must affirm the purpose of the loan by executing a Business Purpose and Occupancy Affidavit or a similar form. If a Business Purpose disclosure is not in the file, then the merits of the file must indicate that the loan meets the definition of a Business Purpose loan.
- Special rules also apply to Business Purpose loans where the borrower is taking cash out of the transaction. In such situations, the cash being taken out must also be used for a Business Purpose and not for personal or consumer use. This includes, for example, using the cash-out of the transaction to improve or maintain other rental properties owned by a borrower. An example of an impermissible use would include using the cash-out of transaction to pay for college tuition or personal debt (i.e., for a non-business purpose).
- All DSCR loans are "Business Purpose Loans"; therefore, to be eligible for the product, the owner cannot occupy the property at any time during the coming year and all cash out proceeds must only be used for business purposes (e.g., acquisition/maintenance/improvement of rental properties).

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1.15 OFAC Search

The Office of Foreign Assets Control (OFAC) of the US Department of Treasury administers and enforces economic and trade sanctions based on US foreign policy and national security goals against individuals and foreign countries. A clear OFAC search for individuals and foreign countries is required.

- Individuals:
  - Individuals identified on OFAC's SDN list are not eligible. All individuals involved in the transaction must be screened through exclusionary lists and must be cleared through OFAC's SDN list, regardless of citizenship status. Requirements:
    - A search of Specially Designated Nationals & Blocked Persons list must be completed via the US Department of Treasury: http://sanctionssearch.ofac.treas.gov.
    - Individuals to be included in the OFAC search: Borrowers/Guarantors, Property Sellers.
    - When the borrower is an entity, Guarantor(s) and all member(s)/manager(s) of the entity must be included in the OFAC search.
- Borrower(s)/Guarantor(s) from OFAC sanctioned countries are not eligible. The Borrower(s)/Guarantor(s) are defined as individuals signing the loan application.

2.0 BORROWERS

2.1 First-Time Homebuyers

A borrower is considered a first-time homebuyer if they have had no ownership interest—sole or join a residential property within the three years prior to the purchase agreement date.

Borrowers are not considered first-time homebuyers if:

- They currently own their primary residence free and clear
- They reside in a marital home and are on title

First-time homebuyers are not eligible on Sharp Advantage DSCR programs.

2.2 U.S. Citizens

U.S. Citizens are eligible for financing.

2.3 Permanent Resident Aliens

Permanent resident aliens—non-U.S. citizens authorized to live and work in the U.S. permanently—are eligible for financing.

Acceptable Documentation:

- I-151 Permanent Resident Card (Green Card) with no expiration date
- I-551 Permanent Resident Card (Green Card) valid for 10 years and unexpired
- I-551 Conditional Permanent Resident Card valid for 2 years, accompanied by USCIS Form I-751 (petition to remove conditions)
- Unexpired foreign passport with a valid I-551 stamp stating:
  - "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until [mm-dd-yy]. Employment Authorized."

2.4 Non-Permanent Resident Aliens

A Non-Permanent Resident Alien is a non-U.S. citizen who is legally authorized to reside and work in the United States on a temporary basis.

Eligibility

Borrower must have:

- A valid Social Security Number.
- Authorization to work in the U.S. with a demonstrated likelihood of employment continuation for at least 3 years.

Residency/Employment Requirements:

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- A minimum 2-year credit history
- 2 years employment in the same line of work and 2 years housing history (U.S. or abroad) or
- Borrowers who have been offered and sponsored for employment in the U.S. under an H1-B1 Visa must provide:
  - Documentation of sponsorship required along with the Visa, and
  - Evidence of first paycheck required

Verification of Residency Status
- Refer to the FCM Borrower Eligibility Matrix

Residency and Documentation Requirements
A copy of the borrower's unexpired visa must be obtained.

Acceptable alternatives to verify Visa/EAD status include:
- Form I-797 (Notice of Action) with valid extension dates
- Form I-94 (Arrival/Departure Record)
- Borrowers who cannot provide evidence of lawful U.S. residency are not eligible for financing.

Employment Authorization:
- If the visa is not employer-sponsored, a valid Employment Authorization Document (EAD) is required.
- If the visa expires within 6 months of application, a letter from the employer confirming continued employment and intent to renew the visa is acceptable. The employer listed must match both the loan application and the visa.

Note: An EAD by itself is not sufficient to document that a non-U.S. Citizen is legally able to reside in the United States.

Additional Guidelines:
- A non-U.S. citizen borrowing with a U.S. citizen must still meet all applicable visa and residency documentation requirements.
- Individuals with spouse or family member visas may only qualify as co-borrowers and must provide a valid EAD for income to be used in qualification.
- Visa Waiver Program (VWP):
- Borrowers from countries participating in the U.S. Department of Homeland Security's Visa Waiver Program (VWP) are not required to provide a visa. Eligible countries can be verified on the *U.S. Department of State website*.

Eligibility Restrictions
Borrowers who are citizens of Venezuela, Russia, Belarus, or any country or individual subject to *OFAC sanctions* are ineligible for financing.

Florida SB 264 Compliance
In the state of Florida, citizens of the following countries are ineligible under Florida Senate Bill 264:
- China
- Russia
- Iran
- North Korea
- Cuba
- Syria

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Texas SB 17
In the state of Texas, entities majority owned or individuals who are domiciled and/or citizens of the following countries are ineligible:

- China
- Russia
- Iran
- North Korea

2.5 Maximum Exposure

FCM Mortgage Inc. allows a maximum of 10 loans per borrower, including the subject property, or total financing of $5.5 million, whichever is less.

Maximum condominium exposure limit is 15%.

Exceptions must be approved by **Senior Management**

3.0 ASSETS

3.1 Business Assets

Business assets may be used for down payment, closing costs, and reserves for self-employed borrowers. Usage is limited to the borrower's ownership percentage. Non-borrowing owners must provide a signed letter confirming the transaction and the borrower's access to funds.

Documentation Requirements:
When business funds are being used for down payment or closing costs, and the borrower is using self-employed income from that business to qualify, documentation to prove that the withdrawal of funds will not negatively impact the business is required as evidenced by either:

Full Documentation loans:

- A letter from the CPA/EA/CTEC or a tax preparer with a PTIN; OR
- A cash flow analysis by use of individual tax returns and/or business returns when applicable.
- Tax transcripts are required.

Alternative Documentation loans:

- A letter from the CPA/EA/CTEC or a tax preparer with a PTIN; OR
- When the borrower owns 100% of the business, a letter from the borrower AND a cash flow analysis based on the Underwriter's review of the Bank Statements.
- If using 1099 or W-2 wage earner income, transcripts are required.
- Inconsistent or large deposits should be sourced or excluded from the analysis. The definition of an inconsistent or large deposit is any deposit exceeding 100% of the average monthly sales of the business.

DSCR Loans:

- Business assets may be used for down payment and closing costs.
- Usage is limited to the borrower's ownership percentage.
- Non-borrowing owners must provide a signed letter confirming the transaction and the borrower's access to funds.
- Asset in vesting entity's account can be used at 100% for down payment, closing costs and reserves. **All other business owners must confirm use of assets.**

Borrowers/Business on the loan must be the owners of account.

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NMLS#3112

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3.2 Depository Accounts

Funds in checking, savings, money market, CDs, or other depository accounts may be used for down payment, closing costs, and reserves.

- New accounts, large recent deposits, or balances significantly higher than historical averages require a written explanation from the borrower.
- Unverified funds are not permitted.
- If the account is not solely in the borrower's name, all non-borrower account holders (excluding a non-borrowing spouse) must provide a written statement confirming the borrower's full access to and use of the funds.

3.3 Gift Funds

When allowed, a signed gift letter is required and must include:

- Donor's name, address, phone number, and relationship to the borrower (must be a relative)
- Gift amount
- Date of transfer
- Statement that no repayment is expected

Gift funds must be verified as either available in the donor's account or transferred to the borrower or closing agent.

Acceptable Relatives:
The borrower's spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption, legal guardianship, fiancée, or domestic partner.

Acceptable documentation includes:

- Donor's check and borrower's deposit slip
- Donor's withdrawal slip and borrower's deposit slip
- Donor's check to the closing agent
- Wire transfer evidence
- Closing Disclosure showing receipt of donor's check

If funds are provided at closing, documentation must show the gift was delivered to the closing agent via certified check, cashier's check, money order, or wire transfer.

Donors may not be, or be affiliated with, the builder, developer, real estate agent, or any other interested party to the transaction.

Eligibility:

- Primary Residence = 5% Minimum required investment on LTV >75%
- Second Home = 5% Minimum required Investment
- Investment = 10% Minimum Required Investment. Not permitted when LTV/CLTV > 80%
- Gift funds are not eligible on the Asset Utilization program
- Gift funds may not be used to meet the reserve requirements.

3.4 Gift of Equity

Gifts of equity are permitted on non-arm's length primary residence transactions and are subject to cash-out LTV limits. No minimum borrower contribution is required.

Requirements:

- Property must be a primary residence
- Donor must be an immediate family member
- Borrower must meet reserve requirements using their own funds
- Signed gift letter from donor is required

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- Gift of equity must be disclosed on the settlement statement

3.5 Earnest Money

If earnest money is used to meet minimum borrower contribution requirements, it must be verified and sourced from acceptable funds.

Acceptable documentation includes:

- Copy of the borrower's canceled check
- Receipt from the deposit holder
- VOD or bank statement showing the average balance was sufficient at the time of the deposit

3.6 Funds Secured by an Asset

Borrowed funds secured by an asset may be used for down payment, closing costs, and reserves. Acceptable collateral includes automobiles, artwork, collectibles, stocks/bonds, and 401(k) accounts. Funds secured by a borrower-owned business are not allowed.

Requirements:

- Loan terms and transfer of funds must be documented
- Lender providing the secured loan must not be a party to the transaction

DTI Treatment:

- Loans secured by non-financial assets: Monthly payments must be included in the debt-to-income ratio
- Loans secured by financial assets (e.g., 401(k)): Payments may be excluded if sufficient verified assets exist to repay the loan in full

If the same financial asset is used to meet reserve requirements, the net value (after subtracting the secured loan and related fees) must be used to determine reserve adequacy.

3.7 Foreign Assets

Funds for down payment, closing costs, and reserves must be seasoned for at least 30 days in a U.S financial institution or associated with a U.S. Institution. Assets transferred to a U.S. financial institution within 30 days of application are acceptable if:

- The transfer is documented from the borrower's current or former country of residence, and
- Ownership of the funds by the borrower prior to transfer is verified

Closing Funds:

Down payment and closing costs must be seasoned in a U.S. depository institution for a minimum of 30 days prior to closing.

Reserves:

Foreign account funds may be used for reserves and must be in a U.S financial institution or associated with a U.S. Institution. Acceptable documentation includes:

- Most recent 30-day foreign account statement (converted to USD using the current exchange rate), OR
- A letter of reference on official bank letterhead from a verifiable financial institution, including:
  - Contact information of the signer
  - Type and length of banking relationship
  - Ownership structure of the account
  - Current balance

All foreign documents must be translated, signed, and dated by a certified translator.

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3.8 Interested Party Contributions (IPC)

All Interested Party Contributions (IPCs) must be fully disclosed in the sales contract, appraisal, Loan Estimate (LE), and Closing Disclosure (CD) and must comply with all applicable federal, state, and local laws.

Definition:
Interested Party Contributions include funds or credits provided by any party with an interest in the real estate transaction, such as:

- Property seller
- Builder
- Real estate agent or broker
- Mortgage lender or their affiliates
- Any other interested party

Borrower as an Interested Party:
A borrower acting in a dual capacity (e.g., as their own real estate agent) may contribute funds such as earned commission, provided that the total contribution does not exceed the maximum allowable contribution limits.

Permitted Uses:
Interested Party Contributions are limited to closing costs and prepaid expenses (collectively referred to as Financing Concessions).

They may not be used for:
- Any portion of the borrower's down payment, or
- Financial reserve requirements.

Excess Contributions:
If an Interested Party Contribution exceeds the allowable limits, both the sales price and the appraised value must be reduced by the amount of the excess concession.

Refer to **Sharp Advantage Program Matrix** for allowable contributions.

3.9 Life Insurance

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

Documentation Requirements:
- For down payment or closing costs: Provide a copy of the insurer's check or payout statement
- For reserves: Document the cash value; liquidation is not required

Repayment Considerations:
- If the only consequence of non-repayment is policy surrender, loan payments may be excluded from the debt-to-income (DTI) ratio
- If additional obligations exist, payments must be included in DTI or deducted from reserves

3.10 Net Proceeds from Sale of Real Estate

When down payment funds are sourced from the sale of the borrower's current home, or other real estate, a final Closing Disclosure must be provided to verify sufficient net proceeds.

3.11 Non-Regulated Financial Assets

When using Cryptocurrency (e.g., Bitcoin, virtual currency) for cash to close and/or reserves funds must be liquidated and held in a U.S. account for a minimum of 30 days prior to the Note date.

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3.12 Rent Credits

Not permitted

3.13 Reserves

Reserves are calculated as the number of months of housing expense (PITIA) a borrower can cover using eligible financial assets. When multiple reserve requirements apply, use the highest single requirement—not a cumulative total.

Reserve Guidelines:

- Net proceeds from a cash-out refinance may be used to meet reserve requirements
- Interest Only loans: Reserves based on the Interest Only payment
- ARMs: Reserves based on initial PITIA, not the qualifying payment
- 1031 Exchange proceeds are not eligible for reserves
- Gift funds are not permitted for reserves

3.14 Retirement Accounts

Vested funds from IRAs, SEP, Keogh, and 401(k) accounts are acceptable for down payment, closing costs, and reserves. The account must be vested, allow withdrawals regardless of employment status, and be verified as owned by the borrower.

If the retirement account holds stocks, bonds, or mutual funds, it must meet the requirements outlined under "Stocks, Bonds, and Mutual Funds" to determine value and documentation needs for use in down payment or closing costs.
When used for reserves, funds do not need to be withdrawn.

Note: Additional requirements apply if the borrower intends to use the retirement account for income qualification.

3.15 Subordinate Financing

New subordinate financing is not permitted. When allowed, subordinate financing must comply with LTV/CLTV limits per **Sharp Advantage Program Matrix** and be formally subordinated to the new first mortgage.

Documentation Requirements:

- Repayment terms of the subordinate lien
- Unsigned subordination agreement prior to closing
- Executed subordination agreement at closing

General Requirements:

- Seller-held or privately held subordinate liens are not permitted
- Subordinate lien must be recorded and clearly subordinate
- Payment must be included in the borrower's DTI; if unknown, use 1.5% of the original loan amount
- For HELOCs, calculate CLTV using the full credit line amount, not the drawn balance
- Negative amortization is prohibited; payments must at least cover interest
- Employer-provided subordinate financing may not require repayment upon termination

3.16 Spousal Accounts

Funds held solely in the name of a non-borrowing spouse are not eligible for meeting cash-to-close or reserve requirements.

3.17 Stock Options

Vested stock options may be used for down payment and closing costs if they are immediately available to the borrower. They are not eligible for reserves.

Documentation Requirements:

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- Statement showing the number of vested options and the option price
- Calculation of the gain based on the current stock price and potential proceeds from exercising and selling the options

3.18 Stocks, Bonds, and Mutual Funds

Vested stocks, government bonds, and mutual funds are acceptable for down payment, closing costs, and reserves, provided the asset value and borrower ownership are verified.

Down Payment & Closing Costs:

- If asset value is at least 20% greater than the required amount, documentation of fund receipt is not required
- If not, evidence of actual receipt from liquidation must be provided

Reserves:

- 100% of the verified asset value may be used
- Liquidation is not required

3.19 Trust Accounts

Funds from a borrower's trust account may be used for down payment, closing costs, and reserves if the borrower has immediate access to the funds.
Documentation Requirements:

- Written verification of the trust account's value from the trustee or trust manager
- Terms outlining the borrower's access to the funds and any impact on trust income used for mortgage qualification

3.20 Verification of Assets – Cash to Close

All programs - Funds used to meet cash-to-close requirements must be liquid or able to be liquidated without restriction by the borrower and documented as follows:

Acceptable Documentation:

- Most recent monthly or quarterly account statement showing opening and closing balances and covering at least 30 consecutive days
- Written Verification of Deposit (VOD) from the financial institution
  - Must include current and average balances for the most recent month
  - Significant discrepancies between opening and current balances require explanation or supporting documentation

All statements must include:

- Borrower's name as account holder
- Full account number
- Statement date and coverage period
- Beginning and ending balance in U.S. dollars

Large Deposits – Cash to Close

Refinance transactions: Documentation or explanation for large deposits is not required.

Purchase transactions:

- Inconsistent or large deposits should be sourced or excluded from the analysis. The definition of an inconsistent or large deposit is any deposit exceeding 100% of the average monthly sales of the business.

DSCR Loans – Large deposits do not need to be sourced.

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3.21 Unacceptable Assets

- Cash-on-hand
- Proceeds from SBA/PPP Loan or any government assistance
- Gifts or grants which must be repaid
- Down Payment Assistance Programs
- Unsecure loans or cash advances
- Section 8 Voucher Assistance
- Sweat Equity
- 529 Savings Plan
- UTMA/ Custodial Accounts

4.0 REDIT

4.1 Age of Credit Documentation

All credit documentation, including the credit report, must be no more than 120 days old at the time of closing.

4.2 Credit Report

A credit report is required for all borrowers and must include merged data from the three major credit bureaus. A valid Social Security number is required for each borrower.

Acceptable formats include:

- Three-bureau merged credit report, or
- Residential Mortgage Credit Report (RMCR)

The report must verify all credit references listed on the loan application and include results of public record searches for all cities where the borrower has lived in the past two years.

Gap Credit Report

A gap credit report or Undisclosed Debt Monitoring (UDM) report is required within 10 days prior to loan closing or at any time after closing. Any newly identified debt must be factored into the borrower's DTI.

Note: DSCR transactions are excluded from this requirement.

4.3 Fraud Alerts

The three national credit bureaus provide automated alerts to identify potential fraud. Common alerts include:

- Initial 90-Day Fraud Alert
- Extended Fraud Alert
- Active-Duty Alert
- HAWK Alert

Requirements:

- LDP/GSA, FHFA, and internal exclusionary lists must be reviewed on all transaction parties: borrowers/guarantors, sellers, brokers, loan officers, and real estate agents
- A copy of the vendor's fraud findings report must be included in the loan file
- All "high" alerts or "red flags" must be addressed and resolved by the lender
- Fraud alerts must be resolved reasonably and in compliance with applicable laws
- Loans cannot receive final approval until all fraud alerts are fully cleared

4.4 Security Freeze

Credit reports must not reflect a security freeze. If a freeze is lifted after the original report date, a new tri-merged credit report must be obtained to reflect updated data from all bureaus.

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4.5 Credit Inquiries

Any credit inquiries within 90 days of the credit report date must be explained:

- If new credit was extended, provide documentation of the current balance and payment
- If no credit was extended, the borrower must state the purpose of the inquiry

DSCR transactions

Excluded from the above requirements except for:

- New mortgages inquiries must be explained and evaluated by underwriting.

4.6 Credit Score Requirements

Full/Alternative Documentation

All borrowers on the loan must meet the program's minimum FICO requirements. The representative score of the Primary Wage Earner is used for qualification and must be based on valid scores from at least two of the following agencies:

- Experian
- TransUnion
- Equifax

When the borrower and co-borrower are self-employed and jointly own the business the highest score amongst all borrowers will be used as the representative score.

The **Representative Credit Score** is determined as follows:

- Use the middle score when three agency scores are available
- Use the lower score when only two agency scores are available
- A minimum of 2 FICO scores is required.

Debt Service Coverage Ratio

The highest representative score of all borrowers will be used for qualification and must be based on valid scores from at least two of the following agencies:

- Experian
- TransUnion
- Equifax

The **Representative Credit Score** is determined as follows:

- Use the middle score when three agency scores are available
- Use the lower score when only two agency scores are available

All borrowers on the loan must meet the program's minimum FICO requirements.

4.7 Credit Re-Scoring

Ineligible:

Credit repair services or paid products from private credit repair companies are not permitted

Eligible:

- Updated credit score may be used for qualification

4.8 Tradeline Requirements

Borrowers with three valid FICO scores are exempt from tradeline minimums. Otherwise, borrowers must meet one of the following:

- Three tradelines reporting for the past 12 months, or
- Two tradelines reporting for the past 24 months, with activity in the past 12 months

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Unacceptable tradelines include:

- Accounts in deferment
- Collections or charged-off accounts
- Accounts discharged in bankruptcy
- Authorized user accounts

Note: Student loans may be considered acceptable tradelines if they are in repayment and not deferred.

4.9 Bankruptcy

All bankruptcies must be discharged or dismissed prior to the loan application date. Seasoning is measured from the discharge/dismissal date to the Note date.

NOTE: Refer to **Sharp Advantage Program Matrix** for specific seasoning requirements.

4.10 Collections and Charge-Offs

Documentation Type: Bank Statements, P&L, 1099, and Assets-as-Income Documentation Types

- Non-medical collections within the past 24 months may remain open if the cumulative balance does not exceed $2,000
- Charged-off second mortgages or junior liens are subject to foreclosure seasoning, measured from the charge-off date
- Collections and charge-offs that have expired under the state statute of limitations may be excluded from DTI; documentation of expiration is required.
- All items affecting title must be paid in full prior to or at closing

Documentation Type: DSCR

Collections and charge-offs not impacting title do not need to be considered for qualification.

4.11 Consumer Credit Counseling Services (CCCS)

Borrowers enrolled in CCCS are eligible if:

- A minimum of 12 months have elapsed on the plan, and
- On-time payment history is documented for the most recent 12 months
- A letter from the CCCS administrator authorizing new mortgage financing is provided

The monthly CCCS payment must be included in the DTI calculation.

4.12 Judgments, Garnishments, and Liens

All open judgments, wage garnishments, and outstanding liens must be paid in full prior to or at loan closing.

4.13 Delinquent Credit Belonging to Ex-Spouse

Delinquent accounts solely assigned to an ex-spouse may be excluded if:

- A divorce decree or separation agreement shows the accounts belong to the ex-spouse
- Late payments occurred after the divorce/separation date
- For mortgages, evidence of title transfer and court-ordered buyout must be provided

Collection accounts may be excluded from cumulative totals if documentation assigns the debt to the ex-spouse.

4.14 Housing Events

A Housing Event includes any of the following:

- Foreclosure
- Deed-in-Lieu
- Short Sale
- Loan Modification
- Notice of Default

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- 120-Day Mortgage Delinquency

Seasoning Requirements:
Seasoning is measured from the completion date of the event to the application date. All housing events must be fully resolved prior to closing, with no outstanding deficiency balance.

120+ Day Mortgage Delinquency:
Seasoning begins from the date the mortgage was brought current.

Bankruptcy (Property Surrendered in Chapter 7):
Use the bankruptcy discharge date for seasoning. Bankruptcy documentation must confirm the property was surrendered.

Loan Modifications:
Seasoning begins from the modification execution date.
Modifications are subject to Housing Event seasoning if they include any of the following:

- Forgiveness of principal or interest on the first or second mortgage
- Principal curtailment applied by or on behalf of the investor
- Conversion of debt to a "soft" subordinate lien
- Reclassification of secured debt to unsecured

NOTE: Refer to the **Sharp Advantage Program Matrix** for additional seasoning requirements related to housing events.

4.15 Lawsuit/Pending Litigation

Borrowers who are parties to pending lawsuits or litigation are ineligible.

4.16 Mortgage and Rental Payment Verification

- A 12-month mortgage history is required for all financed properties
- Payments not shown on the credit report must be verified via VOR/VOM from an institutional source
- If paying a private party and/or individual, 12 months of cancelled checks or bank statements must be provided

All mortgage/rent accounts (including taxes, insurance, and HOA) must be current at closing. If a past-due status appears on credit/VOR/VOM, updated proof of current status is required.

Properties held in the name of an LLC in which the borrower is personally obligated on the note must be included in the qualifying ratios and have the mortgage history documented.

Notes with a balloon feature expiring within 30-days of maturity date requires an extension to avoid being counted as delinquent (e.g., delinquent 31 days is 1x30 late, delinquent 61 days is 1x60 late, etc.).

Housing Late Payments
Refer to the **Sharp Advantage Program Matrix** for specific housing payment history requirements.

4.17 No Housing History (Rent-Free) or Less Than 12 Months Verified

Borrowers who do not have a complete 12-month primary housing history or have had a mortgage for a portion of the year, are subject to the following restrictions:

- 6 months of reserves required
- 10% minimum investment from borrower's own funds required
- Not eligible on DSCR transactions

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Borrowers are considered to have a housing history under the following circumstances. Evidence is required to support these situations:

- Borrower(s) who own their Primary Residence free and clear:
  - Evidence showing taxes and insurance are paid current is required.
  - Properties owned free and clear are considered 0x30 for grading purposes.
- Borrowers living in the marital home:
  - Evidence borrower is on title, and
  - Proof of 12-month payment history, or evidence the residence is owned free and clear
  - LOE confirming borrower resides in marital home
- Borrower(s) who sold a Primary Residence within the past 12 months and are currently residing rent free until subject transaction closes (this applies to Full/ Alt Documentation only – not eligible on DSCR):
  - Evidence of closing disclosure showing sale date

Refer to the **Sharp Advantage Program Matrix** for additional requirements.

4.18 Rolling Late Payments

Each rolling late payment is considered a separate delinquency and must be evaluated individually.

4.19 Past Due Accounts

Consumer debts must be no more than 30 days past due at the time of closing.

5.0 LIABILITIES

5.1 Alimony (Spousal Support) and Child Support Obligations

Alimony, child support, or separate maintenance obligations must be:

- Must be paid current at time of application
- Included in the DTI calculation

Required Documentation:

- Final divorce decree
- Property settlement agreement
- Signed legal separation agreement
- Court order specifying the obligation

If 10 or fewer payments remain, refer to *Installment Debt* guidelines for possible exclusion from DTI.

5.2 Authorized User Accounts

Authorized user accounts are not considered in the borrower's debt-to-income ratio, unless determination borrower is making payments.

5.3 Business Debt

Debt on a personal credit report that is paid by a borrower's business may be excluded if:

- Business account has made payments for at least 6 months

Acceptable Documentation:

- 6 months of canceled checks from a business account, or
- Business Tax returns showing the debt as a business expense, or
- Business Bank statement showing sufficient remaining balance after closing and reserves

5.4 Contingent Liabilities

May be excluded if:

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- Another party has made payments for the past 6 months with 0x30 history, and
- Supported by documentation

NOTE: Court-ordered liabilities (e.g., divorce/separation) may be omitted from DTI if explicitly referenced in the decree or settlement agreement.

5.5 Departure Residence

Pending Sale:

- Exclude current PITIA if:
  - Executed sale contract is provided
  - Closing date is stated, and
  - All financing contingencies are cleared

Converting to Second Home:

- Both the current PITIA and new PITIA must be included in DTI.

Converting to Investment Property:

- Positive income from departing residence cannot be used to qualify
- PITIA can be offset by 75% of projected rental income with:
  - FNMA Form 1007 (Market Rent Analysis) or
  - Signed lease agreement and
  - Proof of receipt for security deposit and first month's rent

5.6 Property Tax Estimates for New Construction

Use the higher of:

- 1.5% of the sales price (1.25% in California)
- Documented local tax rate on improved property

5.7 Installment Debt

Must be included in DTI unless:

- 10 or fewer payments remain

Can be excluded if:

- Paid in full before closing
- Documentation (credit supplement or direct creditor confirmation) is provided

Lease Obligations

- All lease payments must be included in the DTI calculation, regardless of remaining term.

Refer to Ability To Repay (ATR) section for additional information on installment debt.

5.8 Open 30-Day Charge Accounts

- If no monthly payment is reported, use 5% of the outstanding balance
- Accounts may be excluded if:
  - Sufficient verified funds are available to pay in full in addition to closing and reserves, or
  - Proof of payoff prior to closing is provided

5.9 Payoff of Debt to Qualify

Debts paid off at closing may be excluded from DTI with one of the following:

- Credit supplement
- Creditor verification confirming debt is paid
- Evidence of payoff on the Closing Disclosure

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NOTE: Paying down debt in order to qualify, not permitted.

5.10 Revolving Debt

Including buy now pay later accounts:
Use the minimum monthly payment on credit report or current statement.

If no payment is reported:

- Use the greater of $10 or 5% of the outstanding balance

5.11 Retirement/Savings Plan Loans

May be excluded from DTI if:

- Repayable by liquidating the associated asset is sufficient
- Asset value is reduced by the loan amount when calculating funds to close and reserves

5.12 Student Loans

Use the actual monthly payment from the credit report or most recent loan statement.
If no payment is shown on the credit report or if the loan is deferred/forbearance:

Use the greater of:

- 1.0% of the loan balance, or
- Fully amortized payment per loan terms

Borrowers on an income-driven payment plan, refer to *Fannie Mae Selling Guide* for additional guidance.

5.13 Timeshares

Classified and treated as installment debt for credit review purposes.

5.14 Undisclosed Debt

If asset statements indicate possible undisclosed obligations:

- Additional investigation is required to determine if it must be included in DTI

If the borrower is not obligated:

- Provide documentation to verify borrower is not obligated

If the borrower is obligated:

- Obtain account statements and payment history
- Include the monthly payment in DTI

6.0 INCOME

6.1 Full Documentation

Wage-Earners

Income must be verified with:

- Pay stubs covering the most recent 30 days with YTD earnings
- W-2s for the most recent 1 or 2 years
- Signed and processed IRS Form 4506-C
- Verbal VOE within 10 business days of closing

Overtime/Bonus/Commission Income

Variable income sources are eligible for qualifying purposes when the borrower demonstrates a consistent history of receipt in the same line of work for a minimum of one (1) or two (2) years, depending on the documentation type.

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- 12 months standard income / full documentation requires a minimum of one (1) year documented income.
- 24 months standard income/ full documentation requires a minimum of two (2) years documented income.
- Variable income earned for less than one (1) year may not be used to qualify.

Calculation Method
Variable income must be calculated using an averaging method that is consistent, based on the documentation provided 12 or 24 months). The analysis must consider:

- The borrower's history of receipt,
- The frequency of payments, and
- The overall trend of the income.

Documentation Requirements
- Most recent year-to-date pay stub reflecting variable earnings, and
- Most recent W-2 form(s), and
- Verification of prior year's variable income using one of the following:
  - Prior year-end pay stub; or
  - Completed Written Verification of Employment (Fannie Mae Form 1005); or
  - Fannie Mae-approved third-party vendor verification (e.g., The Work Number®).

Self-Employed Borrowers
Self-Employed Borrowers Defined as having ≥25% ownership interest in a business (sole proprietorship, partnership, corporation, or S Corp).

Sole Proprietorship
A Sole Proprietorship is a business structure in which the individual and the business are legally considered one and the same for both tax and liability purposes. All business income and expenses are reported on Schedule C of the individual's IRS Form 1040.

Documentation Requirements
- **Federal Individual Income Tax Return** (IRS Form 1040) for the most recent complete year, including all applicable schedules (especially Schedule C); and
- **Year-to-date Profit and Loss Statement** when the loan application date is more than 120 days after the year-end reflected on the most recent tax return; and
- **Verification of the existence of the business** within 10 business days of the note date or closing.
- When tax returns are used to determine the qualifying income - **Signed and Processed IRS Form 4506-C**, requesting full 1040 transcripts (including all schedules)

Partnerships
A Partnership is a business organization in which two or more individuals jointly own, manage, and operate the business. Partners share in the profits, losses, and control of the business as defined in the partnership agreement.

Documentation Requirements
To determine income from a partnership, the following documentation must be obtained:
- Federal Individual Income Tax Return (IRS Form 1040) for the most recent complete year, including all applicable schedules; and
- W-2 Forms for the most recent complete year (if applicable); and
- Partnership Tax Return (IRS Form 1065) for the most recent complete year, including all supporting schedules and Schedule K-1s.
- Note: If the borrower is a limited partner with less than 50% ownership interest, partnership tax returns are not required; and

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- Year-to-date Profit and Loss Statement, if the loan application date is more than 120 days after the year-end reflected on the most recent business tax return; and
- **When tax returns are used to determine the qualifying income:** Signed and Processed IRS Form 4506-C, requesting full 1040 transcripts (including all schedules); and
- Verification of the existence of the business within 10 business days of the note date or closing.

6.2 Hourly Wages

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

6.3 Corporations

A Corporation is a legal entity that exists separately from its owners and provides limited liability protection. When a borrower has greater than 25% ownership interest in a corporation, they are considered self-employed.

A self-employed borrower who is a corporate officer typically receives W-2 wages and may also report dividend or other income on their individual tax return (IRS Form 1040). Corporate income or losses are reported on the corporate tax return (IRS Form 1120).

Documentation Requirements
To determine income from a corporation, the following documentation must be obtained:

- Federal Individual Income Tax Return (IRS Form 1040) for the most recent complete year, including all applicable schedules; and
- W-2 Forms for the most recent complete year; and
- Corporate Tax Return (IRS Form 1120) for the most recent complete year, including all schedules; and
- Year-to-date Profit and Loss Statement, if the loan application date is more than 120 days after the year-end reflected on the most recent business tax return; and
- **When tax returns are used to determine the qualifying income:** Signed and Processed IRS Form 4506-C, requesting full 1040 transcripts (including all schedules); and
- Verification of the existence of the business within 10 business days of the note date or closing.

6.4 S Corporations

A Subchapter S Corporation (or S Corporation) is a corporate structure that provides the legal and liability protections of a corporation while allowing income, losses, deductions, and credits to pass through to the shareholders for federal tax purposes.

S Corporations are typically smaller entities. Each shareholder reports their proportionate share of the corporation's profit or loss on their individual income tax return. The borrower's qualifying income is based on the borrower's percentage of ownership and may include W-2 wages and K-1 income (reported on Schedule E of the IRS Form 1040).

Documentation Requirements
To determine income from an S Corporation, the following documentation must be obtained:

- Federal Individual Income Tax Return (IRS Form 1040) for the most recent complete year, including all applicable schedules; and
- W-2 Forms for the most recent complete year; and
- S Corporation Tax Return (IRS Form 1120-S) for the most recent complete year, including all schedules and Schedule K-1s; and
- Year-to-Date Profit and Loss Statement, if the loan application date is more than 120 days after the end of the tax year reflected on the most recent business return; and
- **When tax returns are used to determine the qualifying income:** Signed and Processed IRS Form 4506-C, requesting full 1040 transcripts (including all schedules); and

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Verification of the existence of the business within 10 business days of the note date or closing.

6.5 1099 Income

Follows sole proprietorship requirements; reported on IRS Form 1099 and Schedule C.

6.6 Business Narrative

Self-employed borrowers must provide a business narrative with detail related to the size, scope, and operating profile of the business, including the following:

- Description of business/business profile
- Business structure
- Location
- Number of employees/contractors
- Estimated cost of goods sold if any.

An internet search of the business is required with documentation to be included in the credit file to support the business narrative.

6.7 Business Purpose and Occupancy Affidavit

The borrower must attest that the loan transaction is a business purpose and does not intend to occupy the subject property by signing both the Business Purpose and Occupancy Affidavit.

6.8 Alimony and Child Support

- Must continue ≥3 years from note date
- Divorce/separation agreement required
- Proof of consistent receipt for past 6 months via checks/deposits/statements
- Sporadic/inconsistent payments are ineligible
- Disclosure not required unless borrower opts to use this income.

6.9 Annuity Income

- 12-month history via 1099s, returns, or statements
- Letter from issuer with terms, amount, duration, and balance
- Balance must support ≥3 years of continuance
- If <12 months old, must be from non-revocable trust with ≥40-month term

See *Pension/Retirement* section for 401(k) or pension-related annuities.

6.10 Clergy/Housing Income

Ministers (ordained, licensed, or commissioned) are generally considered self-employed unless IRS-exempt. If exempt, IRS documentation must be provided.

Qualifying Income Includes:

- Salary and housing allowance (can be grossed up if non-taxable)
- Parsonage income with proof of 24-month history and 3-year continuance
- Housing allowance may be included in income but cannot be used to offset the monthly mortgage payment.

Required Documentation (One of the following):

- 2 most recent years of tax returns (Schedule SE must reflect housing allowance)
- Church-provided WVOE verifying income
- Pay stub reflecting housing allowance
- If newly employed, church budget showing allocated housing funds

Note: Budgeted amounts for insurance, education, or retirement do not qualify as income unless IRS-exempt.

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6.11 Declining Income

Income declining ≥25% is not considered stable

- Must provide written explanation
- If used, base qualification on the most recent (lower) income — no averaging allowed

6.12 Disability Income

- Acceptable if expected to continue ≥3 years
- Must include payment amount, and likelihood of continuance
- Verification via:
  - Award letter or employer/insurer documentation
  - Recent check or bank statement if current payment differs from award

NOTE: Inquiry regarding the nature/severity of disability not permitted.

6.13 Dividend/Interest Income

- 2 years of IRS Form 1040 tax returns required
- Asset Statement verification within 120 days of closing
- Assets must support income continuity
- If asset value is reduced for transaction, qualifying income must be adjusted accordingly
- Income should be averaged over 2-years if current earnings are consistent with historical performance

6.14 Employed by a Relative

- 2 years of IRS Form 1040
- 2 years of W-2s
- Most recent 30-day pay stub
- Confirm employment status and ownership via CPA legal counsel, Human Resources, and/or Secretary of State if applicable

6.15 Employment Offers and Contracts

- Must provide a copy of the offer letter or contract
- First pay stub must be issued before the Note date
- Prior employment/income must be verified and consistent with offer letter

6.16 Gaps in Employment

The borrower should provide a signed, written explanation for any employment gaps that exceed 30 days in the most recent 12-month period, or that exceed 60 days in months 13-24. Recent graduates and borrowers re-entering the workforce after an extended period are allowed. Full Doc/ wage earners only.

6.17 Foreign Income

- Must be reported on IRS Form 1040 for the past 2 years
- All foreign documents must be translated, signed, and dated by a certified translator or equivalent
- Income *from OFAC-sanctioned countries* is not eligible

Requirements:

- Verification letter from paying agency
- Documentation of at least 12 months of receipt
- Use current income amount for qualifying

6.18 Foster Care Income

Eligible if received from a government agency

Requirements:

- Documentation of at least 12 months of receipt

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- Use current income amount for qualifying

6.19 Ineligible Sources of Income

The following income types are not permitted:

- Rental income from a second home
- Education benefits
- Trailing spouse income
- Lump-sum investment distributions
- Gambling income (unless lottery winnings continue for ≥5 years)
- SBA loans or Paycheck Protection Program funds
- Boarder income
- Mortgage Credit Certificates
- Expense reimbursements
- Stock options
- Self-employment income from marijuana-related businesses
- Income derived from Crypto not liquidated and does not meet Non-Regulated Financial Asset requirements noted within these guidelines.

6.20 IRS FORM 4506-C

- A signed IRS Form 4506-C is required from all borrowers at application and closing
- The form must request appropriate transcript types (e.g., W-2s or full 1040s) and be fully executed prior to closing
- Required for business tax returns
- Not required for loans using Bank Statement Documentation

Refer to the **Sharp Advantage Program Matrix** for specific requirements.

6.21 Non-Occupant Co-Borrowers

Refer to the **Sharp Advantage Program Matrix** for specific eligibility and contribution requirements.

6.22 Non-Taxable Income

If income is verified to be non-taxable and likely to continue, the underwriter may gross up the income by 25% when determining qualifying income.

- Examples of non-taxable income may include military allowances for clothing, quarters, and subsistence, child support, worker's compensation, disability retirement, social security income, clergy housing allowance, foster care income, food stamps, income from municipal bonds, and certain types of insurance benefits.
- Certain income types may contain both taxable and non-taxable income. Tax Returns may be required to accurately determine the non-taxable portion.
- Income may not be grossed up for calculating Residual Income.

6.23 Notes Receivable Income

Acceptable with the following:

- Income must continue for at least 3 years
- A copy of the Note must show payment amount and duration
- Proof of 12 months of consistent receipt via canceled checks, bank statements, or tax returns
- Notes executed within the past 12 months are not eligible

6.24 Non-Profit Entity Income

Income from non-profit entity is ineligible.

6.25 Part-Time/Second Job Income

Part-time or second job income is acceptable if:

- Received consistently for the past 2 years
- Expected to continue
- Supported by current pay stubs and W-2s for the most recent 2 years

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6.26 Pension/Retirement Income

For retirement distributions (401(k), IRA, Keogh, etc.):

- Must be expected to continue for at least 3 years
- Borrower must have unrestricted access to funds without penalty

Required Documentation:

- Award letter or income statement from the plan administrator
- IRS Form 1099 for the most recent year
- Evidence of most recent 30 days of receipt
- For 401(k)/IRA income:
  - Current account statements showing available balance
  - Income averaged over past 12 months

If retirement income also fulfills reserve requirements, reduce the available balance by the income used to calculate 3-year continuance. Remaining balance may be used as reserves.

6.27 Public Assistance

Income from public assistance (e.g., food stamps, welfare, Aid to Dependent Children) may qualify if:

- It has a reasonable expectation of continuing for 3 years
- A benefits award letter confirms the amount, duration, and taxable status
- 2-year receipt history is documented via checks, bank statements, or grant documentation

Compliance Note: All evaluations of public assistance income must comply with the Equal Credit Opportunity Act and applicable state anti-discrimination laws.

6.28 Rent Controlled

Properties and/or units subject to rent control or housing subsidies may only utilize current contractual rents.

6.29 Rental Income – Full Documentation Loans

Rental income may be included in loan qualification meeting the following requirements:

Annual – Long Term Leases

Purchase Transaction

Documentation Requirements:

- Fannie Mae Form 1007/1025 (Comparable Rent Schedule), or
- Copy of the executed lease agreement from seller, and
- Proof of receipt for the most recent 2 months. e.g., bank statements or payment records)

Vacant Properties: Eligible for purchase transactions.

Refinance Transaction

Documentation Requirements:

- Fannie Mae Form 1007/1025 (Comparable Rent Schedule), or
- Most recent executed annual lease agreement (if no active lease, month to month is acceptable with 2 months proof of receipt), and
- Evidence of receipt for past 2 months, e.g., canceled checks/electronic receipt IF using above market rent

Vacant Properties: Eligible for refinance IF the vacancy is due to recent renovations or rehabilitation of the subject property OR between tenants.

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- Appraisal must support the fact that recent work has been completed and provide visual evidence
- Evidence of active property rental listing required
- Fannie Mae Form 1007/1025 will be used to determine rents

Rental Determination

Purchase – Executed lease amounts with supporting documentation or Fannie Mae Form 1007/1025. When lease and Fannie Mae Form 1007/1025 provided, the lesser of the two amounts to be used to determine the rental amounts.

Refinance – The lesser of the Fannie Mae Form 1007/1025 or actual lease amounts.

Rental Income – Income Eligibility
75% of the verified monthly rental income may be used to offset the property's PITIA (Principal, Interest, Taxes, Insurance, and Association fees).

Rental Income – Income from Other REO/ Investment Property:
- Provide a lease and 2 months' bank statements showing deposit of the rent.
  - If the aggregate monthly qualifying rental income (as defined above) minus the full PITIA is positive, it must be added to the borrower's total monthly income **OR**
  - If the aggregate monthly qualifying rental income minus PITIA is negative, the monthly net rental loss must be added to the borrower's total monthly obligations.

6.30 Rental Income – Debt Service Coverage Ratio

Refer to *Rental Income - Debt Service Coverage Ratio* section of the guide.

6.31 Rental Income – Alternative Documentation Loans (ALT Doc)

Rental income may be included in loan qualification meeting the following requirements:

Annual – Long Term Leases

Purchase Transaction

Documentation Requirements:
- Fannie Mae Form 1007/1025 (Comparable Rent Schedule)

Vacant Properties: Eligible for purchase transactions.

Refinance Transaction

Documentation Requirements:
- Fannie Mae Form 1007/1025 (Comparable Rent Schedule), or
- Most recent executed annual lease agreement (if no active lease, month to month is acceptable with 2 months proof of receipt), and
- Evidence of receipt for past 2 months, e.g., canceled checks/electronic receipt IF using above market rent

Vacant Properties: Eligible for refinance IF the vacancy is due to recent renovations or rehabilitation of the subject property OR between tenants.

- Appraisal must support the fact that recent work has been completed and provide visual evidence
- Evidence of active property rental listing required
- Fannie Mae Form 1007/1025 will be used to determine rents

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Rental Determination

Purchase – Executed lease amounts with supporting documentation or Fannie Mae Form 1007/1025. When lease and Fannie Mae Form 1007/1025 provided, the lesser of the two amounts to be used to determine the rental amounts.

Refinance – The lesser of the Fannie Mae Form 1007/1025 or actual lease amounts.

Rental Income – Income Eligibility
75% of the verified monthly rental income may be used to offset the property's PITIA (Principal, Interest, Taxes, Insurance, and Association fees).

Rental Income – Income from Other REO/ Investment Property:
- Provide a lease and 2 months' bank statements showing deposit of the rent.
  - If the aggregate monthly qualifying rental income (as defined above) minus the full PITIA is positive, it must be added to the borrower's total monthly income **OR**
  - If the aggregate monthly qualifying rental income minus PITIA is negative, the monthly net rental loss must be added to the borrower's total monthly obligations

6.32 Accessory Dwelling Units (ADUs)

An Accessory Dwelling Unit (ADU) is an additional living space independent of the primary unit, and must include a separate kitchen and bathroom, and have an entrance separate from the main residence (e.g., garage apartment, basement unit). Property classification (one-unit with ADU vs. two-unit) depends on features such as separate tax classification, zoning, utilities, postal address, and rental use.

Eligibility Requirements:
- Must be taxed as a one-unit property with a single ADU (multiple ADUs not permitted)
- Appraisal must demonstrate that the improvements are typical for the market, supported by at least one comparable with similar use
- Appraisal must confirm legal zoning compliance (permit not required)
- Appraiser must describe the ADU and analyze its impact on value and marketability

Rental Income Treatment:
Purchase:
- Owner-Occupied/Second Home: ADU income cannot be used for qualification
- Non-Owner-Occupied: Use lower of market rent (Form 1007) or actual rent

Refinance:
- FNMA Form 1007 required to document market rent
- Current lease and two months' rent receipts required IF using above market rent

6.33 Royalty Income

Acceptable if:
- Royalty income has been received for at least 12 months
- Expected to continue for at least 3 years from the Note date

Required Documentation:
- Royalty contract or agreement specifying amount, frequency, and duration
- Most recent signed federal tax return (IRS Form 1040 and Schedule E)

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6.34 Restricted Stock Units (RSU)

Restricted stock units are granted by an employer to its employee as a form of compensation based on either performance or time. They can be awarded as either stock or an equivalent cash value of the number of shares awarded and usually vest over a certain number of years. After they vest, the employee may sell the shares at the current price or hold the stock for future sale.

To be sues as qualifying income, the restricted stock must have been vested and been distributed to the borrower without restrictions.

For performance-based awards:
Restricted stock income received for 12 to 24 months from the current employer may be considered as acceptable income when:

- Future vesting equal to or greater than previous vesting and that will continue for at least 24 months; or
- Restricted stock income received for the previous 5 years from any employer.

For time-based awards:
A minimum history of 12 months restricted stock income from the current employer is required.

Note: Sign-on bonuses received in the form of restricted stock that vest over any length of time cannot be considered by the lender as qualifying income.

RSUs may not be considered as qualifying income if the funds are also used to meet cash to close requirements.

Documentation Requirements:

- Evidence that stock is publicly traded.
- The most recent vesting schedule or issuance agreement showing the continuance of RSU income.
- Year-end paystubs reflecting the RSU payout.
- An employer provided statement paired with a broker or bank statement, showing the transfer of the shares or funds, which include the date of the payout and the number of vested shares and their cash equivalent distributed to the borrower.

6.35 Seasonal Income

Acceptable if:

- Borrower has worked the same seasonal job for the past 2 years
- Employer expects borrower to be rehired

Required Documentation:

- Written VOE must provide likelihood of rehire
- W-2s for the most recent 2 years
- Income should be averaged over 2 years

6.36 Social Security Income

Type	Required Documentation
Retirement/Disability	SSA Award letter or proof of current receipt
Supplemental Security (SSI)	SSA Award letter and proof of current receipt
Benefits from another's record	SSA Award letter, proof of receipt, and evidence of 3-year continuance (e.g., age of qualifying person)

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Note: Refer also to Non-Taxable Income for gross-up guidance.

6.37 Teacher Income

Income must be calculated based on the borrower's pay structure (9-, 10-, or 12-month).

- If unclear, obtain contract or documentation from the school district
- Use actual gross income earned annually and average over 12 months

6.38 Tips and Gratuities

Acceptable if:

- Common to the borrower's occupation
- Documented over a 2-year history

Required Documentation:

- Most recent W2's (1 or 2 years, depending on doc type)
- YTD paystub
- Income should be averaged; unreported tips are not eligible

6.39 Trailing Spouse/Co-Borrower Income

Not eligible for qualification. Income anticipated due to relocation may not be used.

6.40 Trust Income

Confirm the trust income by obtaining a copy of the trust agreement or the trustee's statement confirming the amount, frequency, and duration of payments:

- Trust verification documentation must clearly identify the date the trust was created.
- Trustee statement evidencing borrower is a beneficiary and income will continue for three (3) years.
  - Trust verification documentation to include a letter from an accountant or attorney who has reviewed the trust's documentation when one of the following applies:
  - Trustee's statement or other documents are not available, or
  - Borrower is trustee

Variable trust income: Use an average over the length of time per the doc type selected.

- When variable trust income has been received for less than 24 months, but not less than 12 months, it may be considered as stable income with compensating factors

Fixed trust income: Use the fixed payment as documented.

- If the borrower creates the trust as trustee, the assets within the trust must be verified with 3rd party documentation (i.e., bank statements).
- Unless this income is received monthly, documentation of current receipt of the income is not required if the income is on the borrower's most recent tax return.

6.41 Unemployment Compensation

Generally, not eligible, except for seasonal workers with:

- 2-year history of employment in the same field
- 2-year history of unemployment income during off-season
- Income must be averaged

6.42 VA Benefits

Acceptable with:

- Award letter or distribution form
- Proof of one-month receipt
- Income must be expected to continue for 3 years

NOTE: No verification needed for VA retirement or long-term disability

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6.43 Verbal Verification of Employment (VVOE)

For Wage-Earners:

- Third party verification must be completed within 10 business days of closing

Must include:

- Borrower's employment status
- Name and phone of verifier and verifier's source
- Independently verified employer phone number (e.g., via online search, directory, or licensing board)

For Self-Employed Borrowers:

- Independent business verification within 10 business days of closing

Acceptable sources include:

- CPA, PTIN, Tax Attorney, regulatory agency, licensing bureau
- Secretary of State business registration
- Online business directory listing

6.44 Written Verification of Employment (WVOE)

Written VOE may be used in place of paystubs and W-2s.

Requirements:

- Fannie Mae Form 1005- or third-party electronic verification (e.g., The Work Number)
- Signed by HR representative, business owner, or officer, unless electronic verification

Must include:

Borrower name, position, dates of employment and base and any applicable variable income.

7.0 OCCUPANCY

7.1 Primary Residence

A primary residence (owner-occupied) is defined as the dwelling where the borrower resides the majority of the year.

Eligibility Requirements:

- Borrower must intend to occupy the property as their principal residence.
- The property must have physical characteristics suitable for the borrower's household.

7.2 Second Home

A second home (vacation or recreational property) is a dwelling occupied by the borrower in addition to their primary residence. Second homes are limited to 1-unit Single-Family, PUD, or Condominium properties.

Eligibility Criteria:

- Located a reasonable distance from the primary residence
- Occupied by the borrower for part of the year
- Suitable for year-round occupancy
- Borrower must have exclusive control of the property
- Property must not be:
  - Part of a time-share arrangement
  - Included in a rental pool
  - Under any management agreement requiring it to be rented or assigned to a third-party

7.3 Investment Properties

An investment property is a non-owner-occupied, income-producing property.

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- The borrower or family member does not reside in the property
- Income may be derived from the property via rent or lease agreements, see *Income* section.

8.0 PROPERTY AND APPRAISAL

8.1 General Requirements

A full appraisal is required for all loan transactions to determine the adequacy of the subject property as collateral for the requested mortgage.

The following requirements must be met:

- The appraisal must demonstrate sound reasoning and provide adequate support for the methodology used in determining the value opinion.
- The appraisal must reflect an accurate, well-supported value and a complete description of the subject property.
- The appraiser must include a valid license or certification number on the report.
- The appraisal must comply with the Appraiser Independence Requirements (AIR) published by Fannie Mae and Freddie Mac.
- The appraisal must adhere to the requirements outlined in the Federal Truth in Lending Act (TILA) and Regulation Z as they pertain to valuation independence.
- A copy of the ratified sales contract, along with all financing terms and concessions related to the transaction, must be provided to the appraiser.
- The appraisal must be ordered and received through established lender processes and systems to maintain independence.
- The appraiser must not make unsupported assumptions or rely on impermissible demographic characteristics (e.g., race, color, religion, sex, handicap, familial status, national origin, or neighborhood ethnic composition) in determining market value.

8.2 Appraisal Forms

All appraisal reports must be completed using the most current Fannie Mae and/or Freddie Mac forms, as applicable to the subject property and transaction type.

Acceptable forms include:

- Uniform Residential Appraisal Report – FNMA Form 1004 (1-unit properties)
- Small Residential Income Property Appraisal Report – FNMA Form 1025 (2–4-unit properties)
- Individual Condominium Unit Appraisal Report – FNMA Form 1073
- Appraisal Update and/or Completion Report – FNMA Form 1004D
- Single Family Comparable Rent Schedule – FNMA Form 1007 (required for all 1-unit investment properties)
- Short-Term Rental Analysis

8.3 Appraisal Report Requirements

The following items must be contained in the appraisal report:

- Street map showing the location of the subject property and all comparables used.
- Exterior building sketch of the improvements indicating dimensions. A floor plan sketch is required along with calculations demonstrating how the estimate for gross living area is determined. For a unit in a condo project, the sketch of the unit must indicate interior perimeter unit dimensions rather than exterior building dimensions.
- Original color photographs or digital color images of the front, street, and rear views of the subject property. Original digital black and white photographs/pictures are permitted if the appraisal clearly indicates the subject property meets our standards.
- Interior photos of the subject are required to include the kitchen, all bathrooms, the main living area, any areas with physical deterioration, and any renovations/ improvements.
- Any other data as an attachment or addendum to the appraisal report form, is necessary to provide an adequately supported estimate of market value.

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- Appraisal report must contain analysis of all agreements of sale, options or listings for the subject property current as of the effective date of the appraisal, and analysis of all sales of the subject property that occurred within the 3 years prior to the effective date of the appraisal.
- The appraisal report must include a completed Sales Comparison Approach section of FNMA Form 1004 where there are comparables used with more than one sale or transfer in the 12 months prior to the effective date of the appraisal.
- Appraiser comments on any unfavorable conditions, such as adverse environmental or economic factors, and how those conditions impact the market value of the property. In those cases, the appraiser's analysis must reflect and include comparable sales that are similarly affected.
- Certification and statement assumptions and limiting conditions signed by the appraiser.

8.4 Appraisal Review

Appraisal review documentation is required for all loan files unless a second appraisal is obtained. The review must validate the collateral value and confirm that the appraisal supports the "as-is" market value of the subject property as of the date of the loan transaction.

Eligible Appraisal Review Products:
Collateral Underwriter® (CU®):
- CU Score must be 2.5 or less
- File must include the Submission Summary Report (SSR)

If the CU Score exceeds 2.5, one of the following is required:
- Enhanced Desk Review (Collateral Desktop Analysis (CDA)
- Field Review, or
- Second Appraisal

Additional Requirements:
If the enhanced desk review reflects a value with a variance more than 10% below the original appraised value or is indeterminate, the file must include either:
- A field review, or
- A second appraisal

Field reviews or second appraisals may not be completed by the same appraiser or appraisal company that performed the original appraisal.

Second Appraisal Requirements
A second appraisal is required for all loans with a loan amount greater than $2,000,000.

Requirements:
- Two full interior/exterior appraisals must be obtained.
- The lower of the two appraised values must be used to calculate the loan-to-value (LTV) ratio.
- Each appraisal must be completed by different appraisers and appraisal companies.

8.5 Appraiser Qualifications

Appraisers must be state-licensed or state-certified in compliance with Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989. They must possess the experience, geographic competency, and data access necessary to deliver a credible and professionally prepared appraisal report for the subject property type and market area.

Requirements:
The appraiser must have:
- Appropriate state certification or licensure.
- Geographic competency for the subject market.

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- Experience with the subject property type.
- Access to applicable market data and comparable sales.

8.6 Use of Unlicensed Appraisers:

An unlicensed or uncertified appraiser may contribute to the development of the appraisal only under the supervision of a licensed or certified appraiser.

The licensed/certified appraiser must:

- Sign the report as the primary appraiser.
- Personally inspect the subject property if required by the assignment.
- Accept full responsibility for the report's content and conclusions.
- The arrangement must comply with all applicable state laws and licensing requirements.

8.7 Age of Appraisal and Appraisal Updates

Appraisals must be completed within 4 months and not more than 12 months prior to the Note date.

Appraisals Older Than 4 Months:

If the appraisal is more than 4 months old on the Note date, an appraisal update is required. The appraiser must:

- Inspect the exterior of the subject property.
- Review current market data to determine if the value has declined.
- Complete and submit the Appraisal Update and/or Completion Report (FNMA Form 1004D), including interior and exterior photographs.

Appraisal Update Outcomes:

- If the appraiser reports the value has declined, a new full appraisal is required.
- If the appraiser reports the value has not declined, the original appraisal remains acceptable, and no additional fieldwork is necessary.

Note: The appraisal update (Form 1004D) must be completed within 4 months of the Note date.

8.8 Use of Substitute Appraiser:

- The original appraiser should complete the update when possible.
- If a substitute appraiser is used, they must:
  - Review the original appraisal.
  - Provide a written opinion confirming the reasonableness of the original value.
  - Document the reason the original appraiser was not used.

8.9 Compatibility of Subject Property and Neighborhood

The subject property should be compatible with the surrounding neighborhood based on the following factors:

- The age and price of the subject property should be consistent with the range of ages and prices of comparable homes within the neighborhood, as reported on the Uniform Residential Appraisal Report (URAR).
- The present land use, predominant occupancy, and anticipated land use changes should support long-term marketability.
- Residential properties located in areas zoned agricultural or commercial may be acceptable, provided the location does not adversely affect the marketability or market value of the property.

8.10 Proximity of Comparable to Subject Property

Comparable sales should be located within the same neighborhood as the subject property whenever possible. Sales prices must reflect the same favorable and unfavorable location characteristics.

- Established Subdivisions, Condominiums, and PUDs:

If the subdivision or project has resale activity, at least one comparable must come from within the same development. Use of comparables outside the subject neighborhood must be explained by the appraiser.

- New Subdivisions, Condominiums, and PUDs:

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The appraisal must include:

- One comparable sale from within the subject subdivision or project.
- One comparable from the general market area outside of the subject development.
- A third comparable from either source, provided it is a credible value indicator.

8.11 Age of Comparables

Comparable sales should generally be dated within six (6) months of the appraisal report date.

- Sales dated 6–12 months prior may be used with a written explanation from the appraiser.
- Older sales may be accepted if they are the most appropriate indicators of value and if value support and market acceptance are clearly demonstrated.

8.12 Property Values Within Market Area

The subject property's value should be consistent with values in the surrounding market area. The appraiser must address the following market conditions as of the appraisal's effective date:

- Trends in property values (e.g., stable, increasing, declining)
- Current housing supply levels
- Average marketing times

If the market is identified as declining, the loan-to-value (LTV) ratio must be reduced by 5%.

8.13 Redlining Prohibition

Appraisals must not include or be influenced by any prohibited basis, including race, ethnicity, gender, or the minority composition of a geographic area.

- References to race, minority geography, or any other protected class are not permitted in appraisal reports.
- Use of coded or suggestive language as a proxy for race or other prohibited bases is unacceptable.
- All statements and conclusions must be supported by objective, market-based data.

8.14 Over-Improvements

An over-improvement is a feature or addition that exceeds typical market expectations and provides less contributory value than its cost.

- The appraiser must identify over-improvements and quantify their contributory value in the sales comparison approach.
- Examples include swimming pools, large additions, or oversized garages in markets where such features are uncommon.
- Appraisals must reflect only the market-supported contributory value of these features, especially when they may not appeal to a typical buyer.

8.15 Neighborhood Review

The appraisal must include a thorough and accurate description of the subject property's neighborhood, including any factors that may affect the property's marketability or value. The analysis should consider the following key characteristics:

- Degree of development (e.g., fully developed, developing, underdeveloped)
- Supply and demand conditions in the area
- Present land use (residential, commercial, agricultural, etc.)
- Owner-occupancy levels versus tenant-occupied properties
- Price range of homes and the predominant value within the neighborhood
- Age range of properties in the area, including how the subject compares

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8.16 Minimum Square Footage Requirements

Properties must meet the following minimum gross living area (GLA) requirements:

Property Type	Minimum Square Footage
Single-Family	700 sq. ft.
Condominium	500 sq. ft.
2-4 Unit Properties	400 sq. ft. per unit

8.17 Cost Approach

If completed, the cost approach must:
Clearly separate values assigned to land, site improvements, and outbuildings.

- Include an explanation from the appraiser when the land-to-value ratio exceeds 35%, demonstrating consistency with surrounding properties.

Note: Appraisals that rely solely on the cost approach to determine market value are not acceptable.

8.18 Income Approach

When utilized, the income approach must include:

- Supporting comparable rental and sales data.
- The gross rent multiplier (GRM) calculation used to determine the indicated value.

Note: Appraisals relying solely on the income approach as the indicator of market value are not acceptable.

8.19 Sales Comparison Approach

Each appraisal must contain an estimate of market value, defined as:

- The most probable price a property should bring in a competitive and open market, under all conditions requisite to a fair sale, with both buyer and seller acting prudently, knowledgeably, and without undue pressure.

Assumptions of this definition include:

- Both buyer and seller are typically motivated.
- Each party is well-informed and acting in their best interest.
- The property has been adequately exposed to the open market.
- Sale terms reflect cash or equivalent financing.
- The price is unaffected by special concessions or incentives.

8.20 Minimum Comparable Sales Requirements

- A minimum of three (3) closed comparable sales must be provided.
- Additional comparable sales may be included to support the appraiser's opinion of value.
- The subject property may be used as a fourth comparable if it has a relevant closed sale history.
- Contract offerings and current listings may be used as supplemental data, when appropriate.

8.21 Comparable Selection Criteria

Comparables used in the sales comparison approach should:

- Be located within one (1) mile of the subject property.
- Be closed within the last 12 months.
- Be similar to the subject property in terms of:
  - Age
  - Size
  - Design and features
  - Amenities
- Reflect reasonable and well-supported adjustments, including:
  - Individual line item adjustments

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- Gross and net adjustments
- Have a sales price within a reasonable range of the subject's value.
- Include at least three recently closed sales as the primary basis of comparison.

Exceptions
When suitable comparables do not meet the above criteria, the appraiser must:
- Clearly explain and justify the use of alternative comparables.
- Provide market support for the adjustments and the resulting opinion of value.

8.22 Property Considerations

Accessory Dwelling Units (ADU)
Properties with an Accessory Dwelling Unit (ADU) are eligible if all of the following requirements are met:
- The property is typical and common for the market area and considered readily acceptable.
- A maximum of one accessory unit is present; multiple ADUs are not permitted.
- The property conforms to applicable zoning laws and regulations.
- The appraisal includes at least one comparable sale featuring a similar accessory unit.
- The accessory unit is significantly smaller than the primary residence.
- Legal non-conforming use is allowed if there is no adverse impact on value or marketability.
- The ADU must not compromise the eligibility for hazard insurance coverage on the primary structure.

8.23 Dampness

If the appraisal identifies evidence of dampness, the following must be provided:
- The appraiser must describe the potential impact on value and marketability, including a probable cause of the dampness.
- A structural engineer's report is generally required prior to loan approval.
- If the dampness is determined to be caused by a structural issue or material impacts value, corrective action must be completed prior to closing.

8.24 Declining Markets / Values

If the appraiser indicates the subject property is located in a declining market, the following apply:
- The appraisal must be reviewed by the underwriter for confirmation of market trends and valuation impact.

Refer to the **Program Matrix** for specific LTV and eligibility adjustments applicable to properties in declining markets.

8.25 Deed Restrictions

Deed restrictions that impact the future transferability of the property are permitted only if the following conditions are met:

Permissible Restriction Type:
- Age-restricted communities are allowed.

Review Requirements:
Appraisal must support that the property is common and typical for the market area.
- Restriction must not impair or limit the first mortgage holder's legal rights in the event of default, foreclosure, or cure.
- Declarations must not require the lender or mortgage holder to send notices of default or foreclosure to any third party.
- Deed restriction must not impose a requirement to notify any governing authority in the event of delinquency or default.

8.26 Deferred Maintenance

- Subject property must be in average or better condition.
- C5 and C6 condition ratings are not eligible.
- Deferred maintenance is permitted when:

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- The deficiency is non-structural as determined by the appraiser, and
- The aggregate cost to cure does not exceed $2,000, and
- The item does not affect habitability or safety of the home.

8.27 Disaster Areas

Underwriters must identify whether the subject property is located in an area impacted by a natural or man-made disaster. Disasters include, but are not limited to: hurricanes, earthquakes, floods, landslides, tornadoes, wildfires, volcanic eruptions, civil unrest, and terrorist attacks.

8.28 Formal Disaster Declaration

The following guidelines apply to properties located in a *FEMA declared disaster* area.

FCM Disaster Policy is initiated when a Federal Emergency Management Agency (FEMA) Presidentially Declared Major Disaster Area is issued in response to a natural disaster event, such as, but not limited to, a hurricane, tornado, wildfire, or flood that caused widespread damage and disruption to a designated geographic location(s). This policy is in line with our commitment to maintaining compliance and safety of properties in disaster-affected areas. These requirements apply to all regions designated by FEMA as eligible for individual assistance.

Definitions:

- Declaration Date: The date in which the President declares an area a FEMA Major Disaster Declaration and individual aid has been made available.
- Incident Period: The Incident Period is the time interval during with the disaster-causing incident occurs.
- Impact Period: The property is considered potentially impacted 90 days from the Incident Period END date or date to which FEMA may extend the expiration of the disaster.

A Disaster Area Inspection Report (DAIR), including photos is required to confirm that the property did not sustain damage or was minor cosmetic damage only. The appraiser must include a comment if the disaster is such that the interior of the property may have sustained damage. Condominiums also require lobby and front of building photos – lobby pictures taken through window is acceptable if lobby is not accessible due to security.

If damage is observed during the inspection, an 'Appraisal Update and/or Completion Report' (Form 1004D/442) with both interior and exterior inspections, including photos, is required.

This inspection must confirm that all damage has been repaired and that the property has returned to its pre-disaster condition or improved.

FULL APPRAISAL

Appraisal completed on or before the FEMA incident end date:

- DAIR is required

Appraisal completed after the FEMA incident **start date** and before the incident end date:

- DAIR, is not required. However, the appraiser must include a statement in the appraisal certifying that the property is free from damage and the disaster(s) had no effect on value or marketability.

Appraisal completed within **90 days** after the incident **end date**:

- The appraiser must include a statement in the appraisal certifying that the property is free from damage and the disaster had no effect on value or marketability.

If the appraisal was completed on or before the incident end date, a DAIR is required. The Inspection may be performed by another licensed appraiser or a licensed property inspection company.

The inspection must be dated after the FEMA incident end date.

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Any damage must comply with *Deferred Maintenance* section of this guide.

INSPECTION REQUIREMENTS IF PROPERTY HAS SUSTAINED DAMAGE
A 1004D/442 is required and must include interior, exterior, and neighborhood photos, as appropriate to verify that the property damage has been completed and property is restored to its pre-disaster condition.

8.29 Electrical Systems

If the appraisal notes a fair or poor rating for the electrical system's adequacy or condition, an electrical certification from a licensed electrician is required. All deficiencies must be corrected prior to closing.

8.30 Environmental Hazards

The appraisal must disclose any known environmental hazards and their effect on value and marketability. Hazards may include, but are not limited to:

- Radon levels above EPA safety standards (if untreated)
- Proximity to toxic waste sites or cleanup areas
- Urea Formaldehyde Foam Insulation (UFFI)

A property inspection by a licensed inspector is required. Borrower acknowledgment of the condition is mandatory.

8.31 Flood Zone

The appraisal must indicate whether the subject property is located in a flood zone.

8.32 Foundation Settlement

If the appraisal identifies excessive settlement, the appraiser must comment on the impact to value and marketability.

- Structural engineer's report is typically required.
- Repairs must be completed prior to closing if structural deficiencies or significant value impacts are present.
- Properties with evidence of sinkhole activity are ineligible.

8.33 Heating Systems

A permanently installed, adequate, and externally vented heat source must be present in all rooms. If central heat is not available:

- Appraiser must confirm the heat source is typical for the market, permanently installed, and sufficient for the space.
- At least one comparable with a similar heating system is required.

8.34 Modular Homes

Eligible if the property meets all of the following:

- Resembles traditional site-built housing
- Legally classified as real property
- Conforms to local building codes in the jurisdiction of installation

8.35 Multiple Dwellings on One Lot/Multiple Parcels

Ineligible: Two or more detached single-family homes on one lot (unless one is an approved ADU).

8.36 Multiple Parcels: Allowed if the following are met:

- All parcels conveyed together
- Parcels are adjoining or separated only by a road (with the non-dwelling parcel being non-buildable)
- Same zoning classification
- Only one dwelling unit exists across the parcels (excluding minor non-residential structures)
- Improvement across parcel lines is acceptable
- A single lien must cover all parcels

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8.37 Private Roads

Permitted subject to:

- Title company insuring legal access to a public road
- Legally enforceable maintenance agreement or covenant (unless covered by state statute)
- Agreement must include:
- Shared maintenance cost allocation
- Default provisions
- Perpetual enforceability
- Maintenance fees must be included in the borrower's PITIA

8.38 Planned Unit Development (PUD)

- To qualify as a PUD:
- HOA membership must be automatic and non-severable
- Assessment payments must be mandatory
- Common areas must be owned/maintained by the HOA for the benefit of unit owners
- Property must not be classified as a condo or co-op

Note: Zoning classification does not determine PUD eligibility. Project analysis is required to ensure it provides acceptable mortgage collateral.

8.39 Property Types

Eligible Property Types

The following property types are eligible, subject to all applicable program requirements:

Eligible Property Types	Notes
Single-Family Residence (SFR) or Townhome	Detached or attached units
2–4 Unit Properties	Subject to occupancy and eligibility criteria
Planned Unit Development (PUD)	Attached or detached
Warrantable Condominium	Must meet agency warrantability guidelines
Non-Warrantable Condominium	Allowed per specific program parameters
Modular Homes	Must meet modular home eligibility
Condotel	Subject to program-specific condotel requirements
Rural Properties	Must meet all rural property requirements as outlined in Section 8.40

Note: Refer to the Program Matrix for detailed eligibility criteria for rural properties and other specific property types.

Ineligible

The following property types are not eligible for financing:

- Manufactured Homes / Mobile Homes
- Log Homes – excludes Faux log home (properties with log cabin aesthetic, e.g. Log Cabin siding) may be eligible.
- Community Land Trusts
- Unique Properties
- Mixed-Use Properties
- Builder Model Leasebacks
- Boarding Houses
- Fractional Ownerships / Timeshares
- Assisted Living or Continuing Care Facilities
- Properties with Mandatory Country Club Memberships
- Properties with Zoning Violations
- Properties Under Construction
- Working or Hobby Farms

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- Properties Rated C5 or C6 Condition
- Live/Work Condominiums
- Geodesic Domes
- Houseboats
- Shop House (or house)
- Industrially Zoned Properties
- Theme Park Resort Properties
- Properties Subject to Rent Control
- Barndominiums
- Agricultural Properties
- Properties used for the cultivation, distribution, manufacture, or sale of Marijuana
- Properties in Hawaii located in Lava Zones 1 or 2
- Homes Located on Native American Land (Reservations)
- Cooperative Housing (Co-Ops)
- Leasehold Condominiums

8.40 Rural Properties

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

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

Rural properties must comply with all the following criteria:

- Acreage includes road frontage and subject property.
- Property must not be agricultural or provide a source of income to the borrower.
- Lot size and acreage must be typical for the area and like surrounding properties.
- Property cannot be subject to idle acreage tax benefit, tax abatements or other tax incentive program.
- Present use as per the appraisal must be the “highest and best use” for the property.
- Condition, quality, and use of outbuildings should be considered in determining the market value of the subject property when the appraiser clearly supports the adjustments with similar comparable information.

Refer to the **Program Matrix** for eligibility and LTV restrictions.

8.41 Septic System and Sewage Disposal System

Certification of the sewage disposal system may be required when noted in the appraisal or purchase contract. Acceptable certification must be provided by a city, county, state official, or other qualified entity, and must confirm one of the following:

- The system complies with all applicable local and/or state health regulations, is in proper working order, and is expected to function satisfactorily; or
- Local/state health standards do not apply, but the system is found to be functioning properly and is adequate for the subject property.

Certification Age Requirements:

- **Systems ≤ 1 year old:** Certification must be dated within 12 months of closing.
- **Systems > 1 year old:** Certification must be dated within 120 days of closing.

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8.42 Flood Insurance

Flood insurance is required for any property located in a Special Flood Hazard Area (SFHA) as designated by FEMA. These areas are typically identified as Flood Zone A or V. The subject property must be located in a participating NFIP community to be eligible for financing.

Deductible Limits

- Standard Properties: Maximum deductible is $10,000.
- PUD/Condo Projects: Maximum deductible is $25,000.

Flood Certificate

- A Flood Certificate from FEMA is required to determine flood zone status.
- The appraisal must accurately reflect the flood zone.

Flood insurance requirements may be waived only if:

- The improvements are not located in the SFHA, even if part of the lot is.
- The borrower provides a FEMA Letter of Map Amendment (LOMA) or Letter of Map Revision (LOMR) removing the property from the SFHA.

Minimum Flood Insurance Coverage

Coverage must be the lesser of:

- 100% of the replacement cost of the improvements.
- $250,000, the maximum NFIP coverage available per dwelling; or
- The unpaid principal balance of the mortgage.

8.43 Hazard Insurance

Hazard insurance is required on all loans to protect against loss or damage due to fire and other covered perils. The following requirements apply:

- A declaration page must be provided prior to closing as proof of coverage.
- **Purchase transactions** – The effective date must be on or before the funding date.
- **Refinance transactions** - If the existing coverage expires within 60 days of note date, evidence of continued coverage is required.
- All individuals on title must be listed as insured.

Hazard insurance must:

- Settle claims on a replacement cost basis. Claims settled on an actual cash value basis are not acceptable.
- Include a "Special" Coverage Form or equivalent:
  - Fire or Lightning
  - Windstorm (including named storms designated by the US National Weather Service or the National Oceanic and Atmospheric Administration by a name or number.
  - Hail
  - Smoke
  - Civil commotion (including riots)
  - Aircraft, vehicle, or explosion damage

Policies excluding or limiting coverage for windstorm, hurricane, hail, or any other extended perils mentioned above are not acceptable unless:

- An acceptable separate policy or endorsement is obtained from a commercial insurer providing adequate coverage.

The policy effective date must extend at least 60 days beyond funding.

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Coverage Amount
- 100% of the replacement cost value (RCV) of improvements, or
- Unpaid principal balance (must be greater than or equal to 80% of RCV)

Determining Replacement Cost Value
Insurance coverage amount using information from one of the following sources:
- The property insurer
- An independent insurance risk specialist, or
- Another qualified professional with the resources to determine replacement cost coverage.

Acceptable documentation may include:
- A statement from the insurer or qualified professional
- A replacement cost estimator, or
- An insurance risk appraisal

Deductible Amount
The maximum allowable deductible for hazard insurance on a property securing a first mortgage loan is 5% of the face amount of the policy.
- If a separate wind-loss deductible is included in the policy or as an endorsement, it must not exceed 5% of the face amount of the policy.

Evidence of Hazard Insurance
Acceptable forms of evidence include:
- Full insurance policy
- Certificate of Insurance (COI)
- Insurance binder

Each document must include the following information:
- Borrower names, including all individuals on title
- Property address matching the Note and Security Instrument
- Mailing address is the same as property address except on second homes and investment properties; then, it should agree with the borrower's home address as shown
- Policy number
- Insurance carrier name
- Insurance agent name and contact information
- Effective and expiration dates of the policy
- Premium amount
- Dwelling coverage amount
- Deductible amount
- Loss payee clause
- Name and date from the issuing agent

Fair Plan/Century Plan Must include:
- "All perils" coverage (or provide additional DIC policy)
- Paid-in-full evidence for purchase transactions
- Minimum 60 days remaining coverage from closing date for refinances

Mortgagee Clause
First Colony Mortgage Corporation
Its Successors and/or Assigns ATIMA
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Orem, UT 84097

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Policy Expiration Requirements
Purchase Transactions
- Effective date must be on or before note date
- Proof of paid-in-full (receipt) or invoice due at closing must be provided; premium must appear on the Closing Disclosure (CD)

Refinance Transactions
- Policy must have a 12-month term
- Minimum 60 days of remaining coverage from note date

Note: This requirement does not apply to condominium project master insurance policies.

Insurance Carrier Rating Requirements
Hazard insurance policies must be issued by a carrier that meets one of the following minimum rating standards:

Rating Agency	Required Rating
A.M. Best Company	"B" or better Financial Strength Rating;
Demotech, Inc.	"A" or better Insurance Financial Stability Ratings
Kroll Bond Rating	"BBB" or better in Insurance Financial Strength Rating (IRSR)
Standard & Poor's	"BBB" or better in Insurer Financial Strength Rating

8.44 Condominiums

General Condominium Requirements
A condominium is a form of ownership in which the interior of the unit is individually owned, while the remaining elements of the property (e.g., land, building exterior, amenities) are owned collectively by all unit owners.

- All condominium projects must meet the following eligibility criteria:
- All common areas and amenities must be complete.
- Each unit must include a full-size kitchen and at least one bedroom.
- The project's sustainability, marketability, and financial stability must be supportable.
- Condominium ownership must be common and market-acceptable in the project's area.
- The project must comply with all applicable local and state laws, and the Homeowners' Association (HOA) must be incorporated in the state where the project is located.
- The project must maintain adequate insurance coverage.
- An environmental hazard assessment is required if due diligence identifies potential environmental concerns.
- Projects with pending or threatened litigation are generally ineligible.
  - Ineligible if litigation relates to safety, structural soundness, habitability, or functional use of the project. Litigation that involves minor matters with no impact to safety, will be reviewed on a case-by-case basis.
- The project must be located on a single contiguous parcel of land (divided only by public streets if applicable).
- Project structures must be within reasonable proximity; shared elements such as parking and recreation must be consistent with the project's nature and competitive in the local market.
- A single borrower may not own more than 10% of the units in the same condominium development.
- FCM exposure limited to no more than 15% of the total units in any project.
- Refer to **Sharp Advantage Program Matrix** for specific condominium Loan Amount and LTV requirements.

Ineligible Condominium Projects
The following types of condominium projects are ineligible:
- Projects composed of manufactured or mobile homes
- Projects that permit live-work units
- Projects operated as hotels or motels, or that include "hotel" or "motel" in the name
- Projects that restrict the owner's ability to occupy the unit

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- Projects with mandatory rental pooling or management control over unit occupancy
- Projects with non-incidental business operations owned or operated by the HOA (e.g., restaurants, spas, health clubs)
- Common interest apartments
- Timeshare or segmented ownership projects
- Continuing Care Retirement Communities (CCRCs) or Life Care Facilities
- Multi-unit dwelling condos held under a single deed and single mortgage

Deferred Maintenance
Projects with significant deferred maintenance or that have received a directive from regulatory or inspection authorities requiring repairs for unsafe conditions are ineligible.

Significant deferred maintenance includes, but is not limited to, the following:
- Evacuation of the building (full or partial) required for more than seven days or an unspecified period to complete necessary repairs
- Repairs or deficiencies that:
- Compromise safety, structural integrity, or habitability
- Involve substantial rehabilitation or repair of major components
- Impede the safe and sound function of major building systems, including:
  - Foundation
  - Roof
  - Load-bearing elements
  - Electrical
  - HVAC
  - Plumbing
- Involve critical issues, such as:
  - Mold, water intrusion, or potentially damaging leaks
  - Unfunded repairs exceeding $10,000 per unit scheduled within the next 12 months

(Excludes unit-owner repairs or repairs funded by special assessments)

8.45 Condominium Insurance Requirements

Coverage
Borrowers must obtain H06 (walls-in) coverage sufficient to replace interior improvements, including flooring, wall coverings, cabinets, fixtures, and built-ins. The project must meet all Fannie Mae insurance standards for property liability and fidelity coverage.

Fidelity/Employee Dishonesty Insurance
For projects with more than 20 units, fidelity coverage must equal at least three months of total HOA assessments for all units.

HO-6
If the master or blanket policy does not cover interior unit improvements, the borrower must obtain an HO-6 policy. The policy must provide coverage in an amount determined by the insurer.

Deductible
The deductible must not exceed 5% of the policy's face value.

Flood Insurance
The HOA must maintain an NFIP Residential Condominium Building Association Policy (RCBAP) with the following:

Building Coverage: Must be the lesser of:
- 100% of the replacement cost of the building (including foundation); or

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- $250,000 multiplied by the number of units in the building.

Contents Coverage: Must be the lesser of:
- 100% of the replacement cost of all common contents; or
- The maximum NFIP contents coverage available for the building.

Condominium Project Reviews
A valid project review and completed Condominium Project Questionnaire (or equivalent form) are required for all condominium loans. The questionnaire must be dated within 120 days of closing.

Acceptable Review Methods:
Full Project Review is required on ALL Sharp Advantage products.

FHA-Approved Condominiums
Projects with current FHA approval are acceptable if:
- The FHA approval is valid as of the note date.
- The project complies with General Condominium Requirements.
- The project is not listed as ineligible.

Projects with Fannie Mae® PERS (Project Eligibility Review Service) approval are eligible and may be verified on the Fannie Mae® website. The project must also comply with all General Condominium Requirements and may not fall under the Ineligible Project criteria. PERS approval is valid for 18 months from the date of issuance and must be active as of the note date.

FHA Approved Condominiums
Projects with valid FHA condominium approvals are eligible and can be verified on the HUD website. The project must also meet all General Condominium Requirements and may not be classified as an Ineligible Project. FHA approval must be current and valid as of the note date.

Condominium Project Questionnaire Review
A Condominium Project Questionnaire Review is required for all condominium projects, except for site condo or 2-4 unit projects.

Condominium Project Questionnaire (or equivalent form) must reflect compliance with the following:
- Follow Agency Guidelines except as noted under New or Established Projects below
- No more than 15% of the total units may be 60 days or more past due on HOA dues.
- No single entity (individual, investor group, partnership, or corporation) may own more than:
  - 1 unit in projects with 1–4 units
  - 2 units in projects with 5–20 units
  - 20% of total units in projects with more than 20 units
- No more than 35% of the total square footage may be used for commercial purposes.
- The mortgagee may not be responsible for more than the greater of 6 months or the maximum amount permitted under applicable state law for delinquent HOA dues.
  - For Florida condos: liability is limited to the lesser of 12 months' assessments or 1% of the original mortgage debt.
- All project facilities must be owned by the unit owners or HOA. The HOA or unit owners may not be subject to a lease agreement with an outside party.

Established Projects
- At least 90% of the total units must be sold and conveyed to unit owners.
- A minimum of 40% of units must be owner-occupied.

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- For investment property transaction only, at least 50% of the total units in the project must be conveyed to purchasers as a primary residence or second home
- All phases of the project must be complete.
- The HOA must be under unit owner control—no developer or builder-controlled projects permitted.
- Appraisals for established projects with 100+ units may use comparable sales from within the project.
  - Model match units, if available, must be used in the appraisal.

New Projects

- At least 50% of the total units (or units in the subject's legal phase) must be sold and conveyed, and at least 50% must be owner-occupied.
- The project, legal phase, and all common elements must be 100% complete.
- HOA control is required; however, projects under developer or builder control will be considered case-by-case.

Non-Warrantable Condominium

When non-warrantable condominiums are permitted, a completed Condominium Project Questionnaire (or equivalent form) is required.

Criteria	Requirement
Investor Concentration	Maximum 60% of units sold or under bona fide contract
Delinquent HOA Dues	No more than 20% of the total units in the project >60 days delinquent
Single Entity Ownership	Single entity can own up to 30% of units
Reserves for Replacement, Maintenance, or Deductible	HOA Budget must include a dedicated line item allocation to replacement reserves of at least 10% of the budget.
Material Litigation - Structural/Functional	Litigation that involves structural issues, health and safety issues or items that will impact the marketability of the project will not be accepted.
Newly Converted Projects	The project or the subject's legal phase along with other phases must be complete. All common areas in the project must be 100% complete. Minimum of 50% of units must be sold or under contract. HOA should be in control.

Refer to **Sharp Advantage Program Matrix** for specific non-warrantable condominium Loan Amount and LTV requirements.

Condotels

Condotels are condominium projects that are managed and operated as hotels or motels, even though individual units are privately owned.

Project Characteristics:

- Includes registration services and offers rental of units on a daily, weekly, or monthly basis.
- Property must be located in a resort or metropolitan area.
- Project must have obtained a hotel or resort rating from recognized rating providers (e.g., travel agencies, hotel booking platforms, or internet search engines).
- All common elements in the project or legal phase must be 100% complete.
- The homeowners must have control of the HOA.
- Investor concentration within the project may be up to 100%.
- Fractional ownership and timeshares are not permitted.
- Mandatory rental pools or requirements to rent the unit are not allowed.

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- Occupancy restrictions or blackout dates that prevent year-round owner occupancy are not permitted.

Unit Requirements:
- Minimum 500 square feet.
- At least one separate bedroom.
- Fully functioning kitchen, including a stove/oven (cooktop-only configurations are not permitted).

Occupancy Type:
- Investment properties only

Presale Requirement:
- At least 30% of the total units in the project or subject phase must be sold or under bona fide contract.

Ownership Limits:
- A single borrower may not own more than 30% of the total units in the condominium project.

Refer to the **Sharp Advantage Program Matrix** for specific LTV eligibility.

9.0 TITLE/VESTING REQUIREMENTS

9.1 Title Policy Requirements

All loans must be covered by a valid and fully paid lender title insurance policy, which must:
- Be binding and remain in full force and effect.
- Be preceded by a preliminary title commitment indicating that the final title policy will be issued post-closing.
- Be issued by a title insurer licensed and authorized to operate in the state where the subject property is located.
- Conform to Fannie Mae/Freddie Mac title policy requirements.

Final title vesting must reflect the individual borrower(s) as shown on the loan documents.

Title Policy Forms
The title policy must be issued on one of the following forms:
- 2006 ALTA Standard Form
- ALTA Short Form
- ALTA Form with state-required amendments, acceptable to Fannie Mae/Freddie Mac

Title Policy Underwriting
The title insurer must:
- Be duly authorized and licensed in the subject property's state.
- Meet the lender's approval standards, including:
  - Acceptable insurance rating
  - Sufficient financial strength
  - Adequate reserves
  - Proven history of satisfactory claim resolution
  - Conform to Fannie Mae and Freddie Mac title underwriting insurer requirements.

Note: Iowa Title Guaranty is acceptable for properties in Iowa.

Gap Coverage

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One of the following must document the first lien position post-closing:

- Final Title Policy
- Bring-down search covering from original search through recording
- Gap coverage bridging the original search to the mortgage recording date

Borrower Information

- All borrower names must appear on the title commitment.
- The seller's name must match across the purchase agreement and chain of title.

Coverage Amount

Title insurance coverage must be no less than the original principal loan amount.

Insured Name

The title policy must name the lender (as shown in the security instrument) and include:

"Its successors and assigns as their interest may appear."

Age of Report

- The preliminary title report must be dated within 120 days of closing.
- All title requirements (e.g., Statements of Information, trust agreements) must be satisfied prior to closing.

9.2 Entity Vesting: LLCs, Partnerships, Corporations, and S Corporations

Entity vesting is permitted on investment properties only and must meet the following criteria:

General Requirements

- Transaction Type: Business-purpose, investment property only.
- Purpose of Entity: Limited to ownership and management of real estate.
- Entity Domicile: Must be formed in a U.S. state.
- Ownership Limit: No more than four (4) members or owners.
- Personal Guaranty: Required from members with >=50% ownership; full recourse.
- Borrower Ownership: Minimum 25% of the vesting entity.
- Execution Authority: At least one guarantor must have authority to sign on behalf of the entity.
- Guarantor Application: Each guarantor must complete a FNMA 1003 (or equivalent), clearly indicating guarantor status.
- Layered entities:
  - Maximum of two layers
- Borrower(s) must be 100% owner of the subordinate entity.

Required Documentation by Entity Type

Limited Liability Company (LLC)

- Articles of Organization
- Certificate of Good Standing (not required for new entities formed in the past 90 days)
- ~~Foreign Certificate of Good Standing (if entity formed out-of-state)~~
- Operating Agreement or Borrowing Certificate
  - Use appropriate form: Single-Member or Multi-Member
- Ownership Structure (List of members, roles, and % ownership)
- EIN (SSN may be used for Single-Member LLC only)

Corporation

- Articles of Incorporation (with all amendments)
- Bylaws (with all amendments)

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- Certificate of Good Standing
- EIN
- Corporate Resolution granting signing authority
- Franchise Tax Payment Receipt or state-level search confirming good standing

Partnership
- Partnership Certificate
- Partnership Agreement (with all amendments)
- Certificate of Good Standing
- EIN
- Limited Partner Consents (if required)

Ineligible Entities:
- Land Trusts
- Blind Trusts
- Life Estates
- Non-Profit Corporations
- Irrevocable Trust
- IRAs

9.3 Signing Requirements

Individual Guarantors:
- Complete FNMA 1003 application required for each borrower

Authorized Entity Signer:
Sign Note, Deed of Trust/Mortgage, Riders, settlement statements, and any applicable disclosures.

Personal Guaranty Agreement:
- To be signed at closing and dated the same date as the Note
- If located in a community property state (AK, AZ, ID, LA, NM, TX, WA, WI), a Consent of Spouse must also be signed

Documents to Be Signed by Authorized Entity Signer:
- Applicable state and federal disclosures (e.g., GFE, TIL, ECOA)
- Settlement statements, as required
- Note, Deed of Trust/Mortgage, and all associated Riders

9.4 Power of Attorney (POA)

Use of a Limited Power of Attorney is permitted under the following conditions:
- **Transaction-Specific:** The POA must be limited to the subject transaction and include a clearly defined expiration date.
- Must be submitted for review and approval to Underwriting Manager
- **Initial 1003 Requirement:** The borrower must personally sign the initial Uniform Residential Loan Application (FNMA Form 1003).
- **Prohibited Uses:**
  - **Cash-Out Refinance Transactions:** POA is not permitted.
  - **Trusts or Business Entities:** POA may not be used to execute documents on behalf of a trust or business entity.
  - **Interested Parties:** Any party with a vested interest in the transaction (e.g., seller, broker, loan officer, realtor, etc.) may not act as attorney-in-fact.

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10.0 RATIOS AND QUALIFYING

10.1 Debt-to-Income (DTI) Ratios

When applicable, the debt-to-income (DTI) ratio is calculated by dividing the borrower's total monthly obligations (including the full PITIA on the subject property and all other monthly liabilities) by the borrower's total monthly qualifying income.

10.2 Housing Payment Definition:

The borrower's housing payment includes:

- PITIA: Principal, Interest, Taxes, Insurance (HOI/Flood), and HOA dues.
- Subordinate financing: Principal and interest, if applicable.

10.3 Free and Clear Properties:

For primary residences owned free and clear, the following components must still be included in housing expense and remain current:

- Property Taxes
- Homeowners Insurance (HOI)
- Flood Insurance (if applicable)
- HOA Dues (if applicable)

Refer to the **Sharp Advantage Program Matrix** for specific DTI thresholds and requirements.

10.4 Adjustable-Rate Mortgage (ARM) Qualifying

Where permitted, ARM loans must be qualified using the greater of:

- The note rate, or
- The fully indexed rate (Index + Margin)

Adjustable-Rate Index

The 30-day average SOFR (Secured Overnight Financing Rate) as published by the Federal Reserve Bank of New York is used as the index for qualifying and underwriting purposes.

10.5 Interest-Only (IO) Loan Qualifying

For Full/ Alt document loans with an interest-only period (excluding DSCR loans), the qualifying payment is based on the amortizing period following the IO term.

- Interest-only period: First 10 years
- Qualifying amortizing period: Loan term minus 10 years

Example: For a 30-year IO loan, qualify using a 20-year amortizing term

DSCR Loans: Interest-only loans, the qualifying payment is based on the interest only payment.

11.0 TRANSACTION TYPES

11.1 Purchase Transaction

A purchase transaction enables a buyer to acquire real property from a seller.

Requirements:

- A copy of the fully executed purchase contract, including all addenda and attachments, is required.
- The lesser of the purchase price or appraised value will be used to calculate the loan-to-value (LTV) ratio.

Ineligible Purchase Transactions:

- Assignment of contract

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11.2 Refinance Transactions

Benefit to Borrower

All primary residence and second home refinance transactions must demonstrate a measurable benefit to the borrower.

Acceptable benefit indicators include, but are not limited to:

- Balloon payoff
- Title transfer
- Interest rate reduction
- Principal & Interest (P&I) payment reduction
- Debt consolidation or reduction
- Elimination of uncontrolled cash-out

Note: The Benefit to Borrower Worksheet must be completed and retained to document compliance. Compliance with state-specific and federal benefit-to-borrower requirements is mandatory.

11.3 Rate and Term Refinance

A rate/term refinance allows the borrower to refinance an existing mortgage to adjust the interest rate and/or term, without receiving significant new funds.

Maximum Refinance Amount Includes:

- Payoff of the existing first mortgage
- Closing costs and prepaid items (interest, taxes, insurance)
- Subordinate liens that were used in full to acquire the subject property
- Home equity lines of credit (HELOCs) used entirely to acquire the property
- Buyout of partner/spouse per legal documentation

- Subordinate financing not used to acquire the property, subject to:
  - Closed-end seconds: Loan must be seasoned at least 12 months (based on note date)
  - Open-ended lines of credit (e.g., HELOCs):
  - Must be seasoned at least 12 months
  - Draws over past 12 months must not exceed $2,000

Cash Back Limitation:

- Lesser of 2% of the new loan amount or $2,000

Important Note:

If the most recent first mortgage was a cash-out refinance within the past 6 months (Note-to-Note), the new loan does not qualify as rate/term and must be treated as a cash-out refinance.

Determining the Loan-to-Value:

The loan-to-value (LTV) ratio may be calculated using the current appraised value of the subject property.

Properties Listed for Sale:

Property must be taken off market one (1) day prior to application.

Refer to the **Sharp Advantage Program Matrix** for specific guidelines regarding properties that are or have been listed for sale.

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11.4 Cash-Out-Refinance

A cash-out refinance is defined as any refinance transaction that does not meet the requirements for a rate/term refinance, including situations where:

- The borrower receives cash back from the transaction; or
- An open-ended subordinate lien is being paid off that does not meet seasoning requirements.

A mortgage on a property previously owned free and clear is always classified as a cash-out refinance.

Permissible Uses of Loan Proceeds:

- Payoff of the existing first mortgage
- Closing costs and prepaid expenses (interest, taxes, insurance)
- Payoff of non-mortgage related debt
- Cash proceeds to the borrower as disclosed on the closing disclosure or settlement statement

Cash-Out Purpose Letter:

- A signed letter from the borrower must be obtained stating the intended use of cash-out proceeds.
- For investment properties, the Business Purpose and Occupancy Affidavit is an acceptable documentation source of cash-out proceeds.

Refinance-to-Refinance Rule:

If the most recent first mortgage on the subject property was a cash-out refinance within the past 6 months (Note-to-Note):

- The new mortgage must be classified as a cash-out refinance.
- It cannot proceed as a rate/term refinance.

Cash-Out Seasoning

Definition:

Cash-out seasoning is defined as the period of time the borrower has held ownership of the subject property, measured from the property acquisition date ~~(Note Date)~~ to the Note Date of the new transaction.

Requirements:

A minimum ownership seasoning of six (6) months is required to use the current appraised value for a cash-out refinance.

Ineligible Cash-Out Transactions

The following transactions are not eligible for cash-out refinance:

- There was a prior cash-out refinance within 6 months of the new Note date
- The transaction is paying off a Land Contract or Contract for Deed
- Cash-out proceeds for major renovations or rehabs, tear downs, etc., are not permitted on the subject property that could deem the property uninhabitable.
- **DSCR transactions** where cash-out proceeds are used for consumer purposes, including:
  - Personal debt
  - Personal tax liens
  - Judgments
  - Collections
  - Personal Lines of Credit

11.5 Delayed Financing

A delayed purchase refinance is permitted when the subject property was purchased with cash within 180 days of the application date.

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Eligibility Requirements:

- Treated as cash-out for pricing and eligibility (cash-in-hand limits do not apply)
- Original purchase must be an arm's-length transaction
- Documented source of funds used to purchase the property (e.g., bank statements, personal loan, HELOC on another property)
- LTV/CLTV is based on the lesser of:
  - Current appraised value, or
  - Purchase price plus documented improvements
- Preliminary title report must show no existing liens

Determining the Loan-to-Value

The new loan amount may not exceed the actual documented amount of the borrower's initial investment, subject to program maximum LTV/CLTV limits for cash-out transactions.

Properties Listed for Sale

Property must be taken off market one (1) day prior to application.
Refer to the **Sharp Advantage Program Matrix** for specific guidelines regarding properties that are or have been listed for sale.

11.6 Flip Transactions

When the subject property is being resold within a specific number of days of its acquisition by the Seller, the transaction is considered a "flip":

Flip Scenario	Criteria
≤ 90 days from seller acquisition to date of executed purchase agreement	If purchase price has increased by **10% or more,** the transaction is considered a flip.
> 90-180 days from seller acquisition to date of executed purchase agreement	Purchase price has increased by **20% or more,** the transaction is considered a flip.

Flip Transaction Requirements:

- Second appraisal is required
- If the loan is subject to Regulation Z HPML, a copy of the second appraisal must be provided to the borrower per federal disclosure timelines
- Acceptable exceptions to seasoning include:
  - New construction
  - Sales by government agencies
  - Properties inherited or acquired via divorce
  - Sales by the holder of a defaulted loan
- Property must be fairly and openly marketed (e.g., MLS, auction, FSBO with documentation, or developer sale)
- If value increased due to renovations, detailed documentation (e.g., receipts, contracts, specs) is required to support renovation cost

All flip transactions must comply with HPML appraisal rules under Regulation Z. For details, see: CFPB Regulation Z Final Rule. Multiple property transfers within the last 12 months are not allowed.

11.7 Leasehold Properties

Loans secured by leasehold estates are eligible in markets where leaseholds are customary and reflected in the appraisal.

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Eligibility Requirements:

- The mortgage must be secured by:
  - The borrower's leasehold interest in the land, and
  - The property improvements
- The leasehold and improvements must:
  - Constitute real property
  - Be subject to the mortgage lien
  - Be covered by the lender's title insurance policy
- The leasehold estate and mortgage must not be impaired by a merger of title between lessor and lessee
- If secured by a sublease, the lease documents must ensure:
  - A default on the primary lease does not result in automatic termination of the sublease

Leasehold estates must comply with all applicable Fannie Mae® eligibility guidelines, including minimum lease term and other requirements.

Refer to: *Fannie Mae Selling Guide* for additional information.

11.8 Lease with Purchase Option (Rent Credit Option)

Lease with purchase option (aka rent credit with option to purchase) transactions are allowed for Primary Residences only. Borrowers may apply a portion of the rent paid to their down payment requirements. Credit for the down payment is determined by calculating the difference between the market rent and the actual rent paid for the last 12 months. The market rent is determined by the appraiser in the appraisal for the subject property.

For lease with purchase option transactions, the file must contain:

- Copy of fully executed rental/purchase agreement verifying monthly rent and the specific terms of the lease; and
- Copies of canceled checks for 12 months (or term of lease if less) as proof of rental payments.
- Market rents as determined by the subject property appraisal.
- If they have been in the lease purchase agreement for more than 12 months, the borrower will not be considered a First Time Homebuyer (FTHB).

11.9 New York CEMA

Consolidated Extension and Modification Agreement (CEMA) may be utilized for refinance transactions secured by property located in the State of New York.

FCM approved attorneys must be used to review and prepare CEMA documentation on wholesale and retail transactions.

11.10 Non-Arm's Length Transactions

A non-arm's length transaction is a purchase where a relationship or business affiliation exists between the buyer and the seller. These transactions require additional scrutiny to ensure they are bona fide and not intended to serve as a bailout or misrepresentation of value.

Examples of Non-Arm's Length Transactions:

- Family sales
- Employer/employee sales
- Sales involving property in an estate
- Flip transactions
- Tenant purchasing from landlord

Follow Agency guidance for requirements.

Sharp Advantage DSCR: Non-arm's length transactions are not eligible for financing.

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11.11 Impounds/Escrow Accounts

On Higher Priced Mortgage Loans as defined by *12 CFR 1026.35*, an escrow account must be established before consummation of the loan for payment of property taxes and premiums for mortgage-related insurance.
Flood insurance must always be escrowed. Escrow funds/impound accounts may be waived for taxes and hazard insurance on non HPML transaction loans if all of the following requirements are met:

- The Representative credit score is > 700 and
- At least twelve months reserves (cash out proceeds allowed) are documented and
- The LTV/CLTV of the loan does not exceed 80%

On purchase transactions, exemptions may be applied if fully verified and documented and still apply to the borrower (ex. Primary residence homestead exemption on an owner- occupied purchase). Proof of the exemption amount from the county must be in the file. An underwriter or processor certification is acceptable.

Refer to **Sharp Advantage Program Matrix** for additional information

Escrows for Work Completion (Escrow Holdback)
Not permitted

11.12 Prepayment Penalty

Allowed on Investment Property transactions, which are treated as Business Purpose loans.

A prepayment penalty on a mortgage loan is a fee that a lender may charge if the borrower pays off the loan early, either by refinancing, selling the home, or making extra payments that exceed a specified limit. Where permitted by applicable laws and regulations on an investment property, a prepayment charge may be assessed in the period between one (1) and five (5) years following the execution date of the Note.

The following prepayment structure is considered acceptable:

- Six (6) months of interest – The prepayment charge will be equal to six (6) months of interest on the amount of the prepayment that exceeds 20% of the original principal balance.

The prepayment penalty can be disclosed within the body of the Note or in a separate rider.

Please refer to the **Sharp Advantage Prepayment Penalty Matrix** for state specifics.

12.0 MORTGAGE INSURANCE

Not required

13.0 BANK STATEMENTS – BUSINESS

Overview
Self-employed borrowers(s) may provide either 12 or 24-month most recent business bank statements to determine qualifying income.

Occupancy
Primary Residence, Second Home and Investment properties.

Eligible Borrowers

- Borrowers who can provide evidence of self-employment for 2 years, or

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- A minimum of no less than 1 year with evidence the borrower has been in the same line of work for no less than 2 years.
- Business must be in existence for no less than 1 year.

Refer to **Sharp Advantage Program Matrix** for program specific requirements regarding less than 2 years self-employed.

Business Existence

- Minimum of 1 year business existence must be verified using one of the following:
  - Business License
  - Letter from Tax Preparer
  - Secretary of State Filing or equivalent
  - Verification of the business required within 10 calendar days prior to the note date
  - Phone listing with address verified for the borrower's business using the internet

Refer to **Sharp Advantage Program Matrix** for program specific requirements regarding businesses in existence less than 2 years.

Business Ownership

Ownership percent must not be less than 25% and ownership percent must be documented via third-party Tax Professional (CPA, Tax Attorney, Enrolled Agent (EA)), Paid Tax Professional (PTIN) or California Tax Education Council-Registered Tax Preparer (CTEC), Operating Agreement, or equivalent.

Evaluating Bank Statements

- Bank statements must be consecutive and reflect the most recent months available, in relation to the application. Transaction histories are not acceptable.
- Statements must support stable and generally predictable deposits.
- Deposits must be reviewed for consistency. Inconsistent deposits must be evaluated by underwriting and may require a letter of explanation from the borrower.
- Deposits from alternative payment processing applications (i.e., Square, Venmo) are eligible.
- ATM deposits may be included if there is a consistent pattern of such deposit.
- Accounts must be from a US Financial Institution

Multiple Accounts

- Up to 3 accounts may be used to determine qualifying income.
- Borrowers with more than 3 separate bank accounts must qualify using personal bank statements.

Unusual or Large Deposits

- Inconsistent or large deposits should be sourced or excluded from the analysis. The definition of an inconsistent or large deposit is any deposit exceeding 100% of the average monthly sales of the business.
- Deposits considered excessive or not typical will be eliminated from the qualifying income.
- Disallowed deposits include transfers from lines of credit, loans, rental income, one-time only deposit in 12 months, cash advances from credit cards, returns/refunds.

Underwriter Certification/Justification or notation on the 1008 is required when large deposits are included in the qualifying income.

Non-Sufficient Funds

NSFs within the past 12 months that resulted in a fee charged by the financial institution must explained in writing by the borrower and evaluated by the underwriting.

- Transactions covered by overdraft protection do not need to be evaluated.

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Underwriter Certification/Justification or notation on the 1008 is required when NSFs within the past 12 months exceed 3.
Transfers
- Transfers will require evidence that the source of transfer in business-related income.
- Transfers from a personal account will be ineligible.

Expense Factor
One of three (3) expense factors must be used when determining qualifying income:

1. Fixed Expense Factor
50%

Qualifying Income	**Total Eligible Deposits (X) 50%, (X) Percent of Ownership / 24 or 12 MO. = Qualifying Income**

2. Business Expenses Letter

The Expense Letter must:
- Be prepared, signed, and dated by a third-party Tax Professional (CPA, Tax Attorney, Enrolled Agent (EA), Paid Tax Professional (PTIN), or California Tax Education Council-Registered Tax Preparer (CTEC)).
- Include the name of the business.
- Expense Letter must be provided on the Tax Professionals letterhead.
- Expense Letter must specify the business expenses as a percentage of the gross annual sales/revenue.
- Tax Professional must verify the borrower's ownership percentage.
- Borrowers who file their own tax returns would be ineligible from using a Business Expense Letter and must qualify using the fixed expense factor
- Tax Professional must attest that they are not related to the Borrower or associated with the Borrowers business.
- The minimum expense ratio is 20%.

Additional sources of income permitted when income type is documented and evaluated in accordance with this guide.

Business Narrative
Required – Refer to the *Business Narrative Section* of this Guide for requirements.

Declining Income
If bank statements identify a decline in revenue the underwriter must determine whether the income has stabilized.
- Declining income may be acceptable with a letter of explanation signed by the Borrower.

Underwriter Certification/Justification or notation on the 1008 is required when there is evidence of declining income.

14.0 BANK STATEMENTS - PERSONAL

Overview
Self-employed borrowers(s) may provide either 12- or 24-month most recent personal bank statements to determine qualifying income.

Occupancy
Primary Residence, Second Home and Investment properties

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Length of Self-Employment
Borrowers who can provide evidence of self-employment for 2 years, or
- A minimum of no less than 1 year with evidence the borrower has been in the same line of work for no less than 2 years.
- Business must be in existence for no less than 1 year.

Business Existence
Evidence of business existence must be verified using one of the following:
- Business License,
- Letter from Tax Preparer,
- Secretary of State Filing or equivalent.
- Verification of the business required within 10 calendar days prior to the note date.
- Phone listing with address verified for the borrower's business using the internet.

Business Ownership
Ownership percent must not be less than 25% and ownership percent must be documented via third-party Tax Professional (CPA, Tax Attorney, Enrolled Agent (EA), Paid Tax Professional (PTIN), or California Tax Education Council-Registered Tax Preparer (CTEC)), Operating Agreement, or equivalent.

Evaluating Bank Statements
- 12 or 24 months complete personal bank statements dated within 30 days of application.
- Transaction histories are not acceptable.
- If the account is jointly owned, and the joint owner is not an owner of the business, deposits that are not readily identifiable as transfers from the business accounts or business deposits must be excluded unless sourced.

Business Bank Statements
2 months business bank statements evidencing:
- Activity to support business operations; and
- Transfers to the personal account

Refer to **Sharp Advantage Program Matrix** for specific requirements when business bank statements cannot be provided.

Business Narrative
Required – Refer to the *Business Narrative Section* of this Guide for requirements.

Expense Factor
A 20% expense factor must be applied when business bank statements are not provided.

Qualifying Income
Total Eligible Deposits (X) Expenses Factor, (X) Percent of Ownership / 24 or 12 Months = Qualifying Income

Account Transfers
Transfers will require evidence that the source of transfer in business-related income.

Multiple Accounts
Only 1 account may be used to determine qualifying income.

Income Combinations

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Additional sources of income permitted when income type is documented and evaluated in accordance with this guide.

Nonprofit Entities
Ineligible

15.0 DEBT SERVICE COVERAGE RATIO (DSCR)

15.1 Rental Income – Debt Service Coverage Ratio (DSCR)

Debt Service Coverage Ratio transactions are available to experienced investors purchasing or refinancing investment properties for business purposes. The DSCR measures the property's ability to generate enough income to cover its debt obligations, specifically, it principal and interest payments. The typical borrower is expected to have a history of managing income-producing rental properties or have a significant equity down payment in a purchase transaction. The borrower is required to execute a Borrower Certification of Business Purpose and an Occupancy Certification at closing.

Annual – Long Term Leases

Purchase Transaction
Documentation Requirements:

- Fannie Mae Form 1007/1025 (Comparable Rent Schedule) within 120% of lease amount

Refinance Transaction
Documentation Requirements:

- Fannie Mae Form 1007/1025 (Comparable Rent Schedule) within 120% of lease amount, or
- Most recent executed annual lease agreement (if no active lease, month to month is acceptable with 2 months proof of receipt), and
- Evidence of receipt for past 2 months (e.g., canceled checks/electronic receipt) IF rents exceed market

Vacant Properties
Vacant properties are eligible on purchase transactions, and for refinance IF the vacancy is due to recent renovations or rehabilitation of the subject property OR between tenants.

- ~~Evidence of active property rental listing required~~
- Fannie Mae Form 1007/1025 will be used to determine rents

Rental Income Determination
Purchase – Executed lease amounts with supporting documentation or market rents from Fannie Mae Form 1007/1025.

The greater of the Fannie Mae Form 1007/1025 rents or actual rents may be used up to an amount not to exceed Fannie Mae Form 1007/1025 market rents by 120%.

Refinance – Actual rents or market rents from Fannie Mae Form 1007/1025.

The greater of the Fannie Mae Form 1007/1025 rents or actual rents may be used up to an amount not to exceed Fannie Mae Form 1007/1025 market rents by 120%.

Income Eligibility
Debt Service Coverage Ratio = Verified monthly rents/PITIA (Fully Amortizing) or ITIA (Interest Only Loans)

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Short-Term Leases

Purchase
Documentation Requirements:
- Fannie Mae Form 1007/1025 (Comparable Rent Schedule), or
- Statement covering the most recent 12-month rental history from a 3rd party management company, and
- Proof of receipt for the most recent 2 months (e.g., bank statements or payment records) IF rents exceed market

NOTE: Statement from 3rd party property management company to include the following:
- Subject property unit number (if applicable), and
- Vendor or management fees (if applicable)

Refinance Transactions

Documentation Requirements:
- Fannie Mae Form 1007/1025 (Comparable Rent Schedule), or
- Proof of receipt for the most recent 2 months (e.g., bank statements or payment records), IF rents exceed market, and
- Statement covering the most recent 12-month rental history from a 3rd party management company, and
- Evidence property is actively listed as a short-term rental, e.g. Airbnb or VRBO

NOTE: Statement from 3rd party property management company to include the following:
- Subject property unit number (if applicable)
- Vendor or management fees (if applicable)

Rental Income Determination
Purchase – 12 months average of rents provided by 3rd party management company or market rents from Fannie Mae Form 1007/1025

The greater of the Fannie Mae Form 1007/1025 rents or actual rents may be used up to an amount not to exceed Fannie Mae Form 1007/1025 market rents by 120%.

Refinance – 12 months average of rents provided by 3rd party management company or market rents from Fannie Mae Form 1007/1025

The greater of the Fannie Mae Form 1007/1025 rents or actual rents may be used up to an amount not to exceed Fannie Mae Form 1007/1025 market rents by 120%.

Income Eligibility

Debt Service Coverage Ratio =
- Verified monthly rents/PITIA (Fully Amortizing) or ITIA (Interest Only Loans)
- Confirmation from appraiser or a third party vendor validating the governing municipality allows properties to be rented as short term rentals (STR)

Investor Experience
An experienced investor is an individual borrower who has a history of owning and managing 1 commercial or non-owner occupied residential real estate property for at least 12 months during the most recent 3 years.

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Rent Loss Insurance
Rent Loss Insurance for the subject property is required and must equal at least 6 months PITIA for the subject property. Blanket policies covering the subject property are permitted.

If Rent Loss coverage is less than 6 months, the deficiency balance may be comprised of additional subject property PITIA reserves.

- Example: if the required reserves for the transaction are 3 months and the required Rent Loss coverage is 6 months, the total PITIA requirement for the transaction is 9 months.

If the Rent Loss coverage for the property is insufficient at 4 months, the borrower can provide evidence of 5 months PITIA reserves to complete the 9 months PITIA requirement.

Acreage:
Max 5 acres for rural properties.

Mortgage and Rental Verification
All borrowers must presently maintain a Primary Residence.
Borrowers Who Own a Primary Residence

- 12-month payment history reflected on credit report; or
- Evidence property is owned free and clear.

Borrowers Who Rent a Primary Residence

- 12-month payment history (VOR or canceled checks if privately paid)

Borrowers Living Rent-Free
May be considered under the following conditions:

- Borrower is an experienced investor; or
- Borrower is residing in a marital residence with evidence the spouse is on title and 12-month payment history or evidence the residence is owned free and clear.

Primary Residence Validation
The Primary Residence should generally be supported by one or more of the following indicators:

- The residence is located in a different geographic area from the subject property; or
- The overall appeal and location of the Primary Residence are superior to those of the subject property.

First-Time Homebuyers (FTHB)
A First-Time Home Buyer is defined as a borrower who had no ownership interest in a residential property in the United States during the preceding 3-year period.

First- time homebuyers are not eligible on the Sharp Advantage DSCR program.

Refer to **Sharp Advantage Program Matrix** for allowable housing related payment history requirements.

Loan Application
Must be signed as individuals by all members of the Entity.
Section labeled “Title will be held in what Name(s)” should be completed with only the LLC name.

Personal Guaranty
Must be completed by each individual member of the Entity.

- The guaranty should be executed at loan closing and dated the same date as the Note.
- Personal Guaranties from community property states (AK, AZ, ID, LA, NM, TX, WI) must be accompanied with the Consent of Spouse Form

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Business Narrative
Business Narrative Form is not required for DSCR transactions.

Business Entity
Ownership or title vesting in the name of the LLC, Partnership, or Corporation is acceptable.
- Individuals of the entity must qualify as the borrowers; ownership of the subject property may vest in the Entity.
- The borrower must be at least 25% or majority shareholder.

Business Entity Vesting Requirements
To vest in the Entity, the following requirements must be met:
- Entity created for the purposes of owning and managing real estate.
- Entity limited to a maximum of 4 owners (aka members, partners, or shareholders)
- Entity must be domiciled in a US State.
- Personal Guaranties are required from all borrowers on the loan along with any individual/ member with 50% or more ownership in the Entity.
- Borrower(s) must have the authority to execute loan documents on behalf of the entity.

Signature Requirements:
Documents must be completed and signed as follows:
- Loan Application (1003)
  - Completed and signed by each borrower.
  - The application must include the subject property (when the transaction is a refinance) along with the borrower's Primary Residence on the Schedule of Real Estate owned. Other properties owned by the borrower(s) are not required to be disclosed on the application.
- Personal Guaranty
  - Is not required when all members of the entity sign the Note personally AND for the entity and sign the mortgage as a member of the entity.
  - If the above is not true, then:
    - Personal Guaranty is required and must be executed by all borrowers/guarantors.
    - The guaranty for any non-borrower with 50% or greater ownership in the entity may be executed prior to closing, any terms referenced on the guaranty must reference the final terms on the loan.
  - Spousal Consent to Pledge in community property states (AK, AZ, ID, LA, NM, TX, WA, WI).
- Disclosures (GFE/LE, TIL, Notice of Intent to Proceed, Servicing Disclosure, etc.) - completed and signed by each individual borrower.
- CD or HUD 1 - completed and signed by the borrower(s).
- Other Closing Documents (Final TIL, Business Purpose and Occupancy Affidavit, etc.) - completed by the Borrower(s).
- Note– must be completed by the guarantor(s) when accompanied by a Personal Guaranty OR by all members of the Entity both individually and as members when a Personal Guaranty is not executed.
- Deed of Trust/Mortgage, and all attached Riders – must be completed by borrower(s).

Power of Attorney (POA)
Not permitted on cash out, trusts and entity vesting.

Entity Documents
- Entity Articles of Organization or Partnership
- Certificate of Good Standing or equivalent
- Employer Identification Number (EIN) Verification Form
- Certificate of Authorization for the person executing all documents on behalf of the entity
- Corporate documents that contain a list of owners, title, and ownership percentage, e.g., organization structure
- Corporation Specific Documents
- Filed Certificate/Articles of Incorporation (and all amendments)

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- By-Laws (and all amendments)

16.0 SHARP 1099 INCOME DOCUMENTATION

Overview
Permitted for self-employed borrowers earning 100% commission or for independent contractors, documented as follows:

- 1099(s) issued to the borrower as an individual:
  - Requirements
    - 1-year of 1099s or 1099 transcripts permitted.
    - A minimum 2-year employment history in same line of work is required, as documented from the Employment section of the loan application.
    - Documentation supporting the 1099 income being used is required
      - plus 30 day paystubs with YTD earnings OR
      - 3 months bank statements evidencing deposits OR
      - Third party WVOE
    - Utilize one of the following business expense analysis methods:
      - 10% expense factor (90% Net Margin), or
      - Lower expense factor may be used when verified on Third Party prepared business expense statement letter (e.g., CPA, EA, accountant, tax preparer).
    - Qualifying income is the 12 monthly average from the total number of 1099's minus the expense factor from the method chosen above.
    - YTD earnings must be documented when the 1099 reporting period is greater than 120 days from the Note date.
    - YTD earnings must support the ongoing receipt of income shown 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 earnings used for qualification.

- For 1099(s) issued to the borrower's LLC are subject to the following additional requirements:
  - Business Narrative Form must be completed by the borrower, and
  - Third Party documentation is required verifying borrower is 100% owner of the business, and
  - Third Party prepared business expense statement letter is required verifying the expense factor is 10% or less. Business expense statement letter to include:
    - Name of the business.
    - Business expenses as a percentage of the gross annual sales/revenue.
    - Prepared or reviewed by a Third party with knowledge of the business (e.g., CPA/accountant, IRS Enrolled Agent, or tax preparer).
    - Signed by the Third-party preparer/reviewer.
    - Supporting the borrower has no ownership in the business that issued 1099.

Reserves
Refer to the Reserve Section of this guide AND the Sharp Advantage Full/ ALT Doc program matrix for additional requirements.

Income Combinations
Additional sources of income permitted when income type is documented and evaluated in accordance with this guide.

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Gift Funds
Allowed – See Gift Funds Section of this guide for further details.

Tax Returns 4506-C
- Tax returns are not required.
- 4506-C - 1099s are validated with a wage and income transcript from the IRS.

Business Narrative
Required – Refer to the *Business Narrative Section* of this Guide for requirements.

17.0 SHARP PROFIT AND LOSS

Overview
Self-employed borrowers(s) may provide a 12-month, 3rd party prepared P&L to determine qualifying income.

Eligible Borrowers
Borrowers must be self-employed for a minimum of 2 years.

Business Existence

P&L - With Bank Statements	Minimum of 1 year business existence must be verified using one of the following: • Business License, • Letter from Third-party (CPA, Enrolled Agent (EA), or Tax Attorney). • Secretary of State Filing or equivalent.

A verification of the business is required within 10 calendar days prior to the note date.

Business Ownership
The borrower must have a minimum of 25% ownership interest in the company, percentage must be documented via third-party Tax Professional (CPA, Enrolled Agent (EA) or Tax Attorney), Operating Agreement, or equivalent.

PTIN preparers will not be accepted.

Business Narrative
Required – Refer to the *Business Narrative Section* of this Guide for requirements.

Profit and Loss Statement
- P&L must cover the most recent 12 months and be prepared by a 3rd party Tax Professional, (CPA, Enrolled Agent (EA)), or Tax Attorney.
  - PTIN preparers will not be accepted.
- P&L must be signed by both the borrower and Tax Professional
- Third-party Tax Professional (CPA, Enrolled Agent (EA), or Tax Attorney) must attest to:
  - Filing the borrower's most recent tax returns
  - Analyzed the borrower's business financial statements to prepare the P&L.
  - Whether or not there is a relationship or affiliation with the borrower and/or business.
- Borrowers who self-prepare their own taxes are ineligible under this program.

Business Bank Statements – Tolerance Test
Most recent 2 months statements required.

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- Total deposits from the bank statements must be within 20% of gross receipts/ revenue on the Profit and Loss Statement.
  - Abnormal or large deposits evidenced in the bank statements must be explained by the borrower and the underwriter must notate the 1008 with justification when including amounts or amounts to be excluded.

Refer to **Sharp Advantage Program Matrix** for additional information

Qualifying Income
Net income from the P&L, less the percent of ownership, divided by12 months.

The following may be added back to the qualifying income calculation:
- Depreciation
- Depletion
- Amortization/Casualty Loss

18.0 SHARP ASSET UTILIZATION

Overview
Assets may be used to determine qualifying income both alone and in conjunction with other income documentation (e.g. Wage Earner income).
Asset Utilization – Qualifying income determined using assets only.
Asset Supplementation – Assets used in combination with other income.

Asset Utilization is not eligible for the Sharp Advantage DSCR program.

Asset Seasoning
All eligible assets must be seasoned for a minimum of 6 months.
- Increases or decreases of ending balance from month 1 to ending balance of month 6 of 15% or more must be explained by the borrower and the underwriter must notate the 1008 with the justification of the fluctuation.

Minimum Requires Assets
Asset Utilization - The lesser of 1.5x the loan amount or $1MM.
Asset Supplementation - The minimum asset requirement does not apply.

Business Assets
Funds held in a business account are not eligible.

Qualifying Assets
The following personal assets are considered qualified assets and can be utilized to determine qualifying income:
- 100% of checking, savings, or money market accounts
- 70% of Stocks, bonds, mutual funds
- Retirement Accounts
  - 70% of the vested balance when the borrowers age is ≥59 ½.
  - 60% of the vested balance when the borrowers age is <59 ½.

NOTE: All individuals listed on the accounts must be on the loan.

Calculating Qualifying Income
Total qualified assets, less down payment, closing costs, and required reserves, divided by 60 = qualifying income.

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Residual Income:
Minimum residual income thresholds apply to HPML loans or when the DTI is > 43% on Primary Residence and Second Homes only using the following calculation:

Residual Income = Gross Monthly Income - Total Monthly Obligations

The initial 1003 should reflect the number of members in the household for all borrowers on the transaction.

Number of Household Members	Minimal Residual Income*
1 Person	$1,500
2 People	$2,500
For each additional household member	$150

*Instructions for using the Household Members table above: For the household member count, include all related and unrelated members of the household who depend on the borrower(s) for support

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19.0 FORMS AND RESOURCES

The forms provided herein and identified in this section are provided as example forms required for certain loans, in specific instances.

19.1 Business Purpose & Occupancy Affidavit

Business Purpose & Occupancy Affidavit (The "Affidavit")

Loan No: (the "Loan") _____

Borrower(s):_____

Property Address: (the "Property") _____

I, the undersigned borrower(s), hereby declare that the following is true and correct:

1. I have applied for this Loan and am seeking financing for the Property for business purposes only. I do not intend to use the proceeds of the Loan for personal, family, or household purposes.

2. The proceeds of the loan will be used to purchase, improve, or maintain the Property, and I intend to operate the Property as one or more rental units for profit. If I have not executed a lease with a tenant (or tenants) at or before closing of the Loan, I intend to, and will, use commercially reasonable methods and effort to obtain a tenant (or tenants) for the Property following closing of the Loan.

3. Neither I nor any family member intend or expect to occupy the Property at any time. I will not, under any circumstances, occupy the Property at any time while the Loan remains outstanding. In addition, I will not claim the Property as my primary or secondary residence for any purposes for the duration of my Loan. I now reside, and for the duration of my Loan will continue to reside, elsewhere.

4. I understand that Lender originating the Loan in reliance upon this Affidavit. If this Affidavit is not true and correct, and in consideration of Lender making the Loan, I agree to indemnify Lender and its agents, affiliates, subsidiaries, parent companies, successors and assigns and hold them harmless from and against any and all loss, damage, liability or expense, including costs and reasonable attorneys' fees, which they may incur as a result of or in connection with my misrepresentation. I further understand that any misrepresentation in this Affidavit will constitute an Event of Default under my Loan Documents, and may result in the immediate acceleration of my debt and the institution of foreclosure proceedings, eviction, and any other remedies allowable by law.

5. I understand that the agreements and covenants contained herein shall survive the closing of the Loan.

6. I understand that, based on the contents of this Affidavit, the Loan is a business-purpose loan secured by nonowner-occupied real property. I understand that this means that the Loan may not be subject to the requirements of certain federal and state consumer protection, mortgage lending, or other laws, including but not limited to the provisions of the federal Truth-in-Lending Act (15 U.S.C. §§ 1601 et seq.) and its implementing Regulation Z (12 C.F.R. Part 1026), and that my ability to avail myself of protections offered under federal and state laws for consumer-purpose residential mortgage loans may be limited.

7. I understand that any false statements, misrepresentations, or material omissions I make in this Affidavit may result in civil and criminal penalties.

Initial(s) _____ _____ _____ _____

The Property is not and will not be occupied by me or any member of the LLC or any family member

Borrower(s) / Borrowing Entity Members Signature: _____

Date:_____

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19.2 Self-Employed Business Narrative

Business Narrative Form

Business Information Enter all data below and sign form to request a complete bank statement analysis.		
Borrower Name:		
Business Name:		
Service or Product Provided by Business:		# of Employees:
Date Business Started:		# of Owners
Business Legal Structure:		Borrower % of Ownership:
Business Address:		
Is Location:	Is Location:	Total # of Locations:
Payment Methods used by the Business to receive income – check all that apply	Check ☐ Cash ☐ ACH ☐ Wire Transfer ☐ Intuit ☐ Venmo ☐ Paypal ☐ Zelle ☐ CashApp ☐ Other (please describe)	
Summarize the Nature of the Business		
Describe How the Business Earns Income		
I confirm that the business described above is currently open and active ☐		

Borrower Information Signatures & Contact information below must match the person completing the form.	
Company Name:	
Borrower Name:	Title:
Email:	Phone:

Borrower Signature _____ **Date** _____

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19.3 Personal Guaranty Agreement

GUARANTY AGREEMENT

THIS GUARANTY AGREEMENT (this "Agreement") dated this **[DATE]** Day of [_____, 201___] made by **[NAME OF GUARANTOR]** ("Guarantor"), for the benefit of **[LENDER]**, having a mailing address of **[ADDRESS]** ("Lender").

BACKGROUND

WHEREAS, **[BORROWER]** ("Borrower") and Lender have executed a Promissory Note of even date herewith (the "Note") in the sum of **[AMOUNT IN WORDS]** and 00/100 **[$ NUMERICAL AMOUNT]** (the "Loan"). The Loan is secured by, inter alia,

that certain Security Instrument (the "Security Instrument"), executed by Borrower in favor of Lender, and encumbering certain real property and any improvements thereon

WHEREAS, as a condition of making the Loan, Lender is requiring this Agreement to be executed, and the making of the Loan to Borrower by Lender is of material benefit to Guarantor. In order to induce Lender to make the Loan evidenced by the Note for the benefit of Borrower, Guarantor is willing to guarantee and become surety for the performance by Borrower of its obligations under the Loan Documents, as more particularly described herein. This Agreement, the Note, the Security Instrument, and any other document executed and delivered in connection with the Loan (as same from time to time may be amended, restated, and extended) are sometimes individually referred to herein as a "Loan Document" or collectively as the "Loan Documents").

CAPITALIZED TERMS WHICH ARE NOT OTHERWISE DEFINED IN THIS AGREEMENT SHALL HAVE THE SAME MEANING AS SET FORTH IN THE LOAN DOCUMENTS.

AGREEMENT

NOW, THEREFORE, in consideration of the above premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, Guarantor hereby agrees as follows:

1. Guarantor hereby irrevocably, unconditional and absolutely guarantees to Lender and becomes surety for (a) the prompt payment of the principal sum due to Lender from Borrower under the Note at any time and from time to time, together with all interest thereon, (b) the prompt payment of all other sums due to Lender under the terms of the Note and the other Loan Documents and (c) the prompt and complete compliance with and performance by Borrower of all representations, warranties, covenants, agreements and other obligations to Lender under the terms of any and all of the Loan Documents (the payment, compliance and performance obligations hereinabove guaranteed by Guarantor are hereafter collectively referred to as the "Guaranteed Obligations").

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2. This Agreement is an irrevocable, absolute, continuing guaranty of payment and performance and not a guaranty of collection. This Agreement shall remain in full force and effect until all of the Guaranteed Obligations are fully, finally, and irrevocably paid, complied with and performed, and shall continue to be effective or shall be reinstated, as the case may be, if at any time any payment of any of the Guaranteed Obligations is rescinded or must otherwise be returned by Lender (or compliance with, or performance of, the Guaranteed Obligations is rescinded) upon the insolvency, bankruptcy, or reorganization of Borrower or otherwise, all as though such payment, compliance or performance had not been made or tendered. This Agreement may not be revoked by Guarantor and shall continue to be effective with respect to any Guaranteed Obligations arising or created after any attempted revocation by Guarantor and after (if Guarantor is a natural person) Guarantor's death (in which event this Agreement shall be binding upon Guarantor's estate and Guarantor's legal representatives and heirs). The fact that at any time or from time to time the Guaranteed Obligations may be increased or reduced shall not release or discharge the obligation of Guarantor to Lender with respect to the Guaranteed Obligations. This Agreement may be enforced by Lender and any subsequent holder of the Note and shall not be discharged by the assignment or negotiation of all or part of the Note. Guarantor shall be liable for all of the Guaranteed Obligations.

3. If an Event of Default occurs under any of the Loan Documents and continues beyond any applicable notice and grace periods set forth therein, Guarantor shall immediately pay, comply with, and perform such of the Guaranteed Obligations as Lender shall direct, irrespective of whether the Guaranteed Obligations directed by Lender to be paid, complied with and performed by Guarantor are those which give rise to the Event of Default.

4. If an Event of Default occurs under any of the Loan Documents and continues beyond any applicable notice and grace period set forth therein, Lender shall have the right to require Guarantor to pay, comply with and perform the Guaranteed Obligations and shall have the right to proceed immediately against Guarantor for such payment, compliance and performance without being required to make any demand upon or bring any proceeding or take any other action of any kind against Borrower, any guarantor under any other guaranty, or any other person or entity in connection with any of the Loan Documents, or resort to or seek to realize upon the security held by Lender, as a condition precedent to bringing an action upon this Agreement against Guarantor, the liability of Guarantor hereunder being a primary obligation of Guarantor and independent of and separate from the liability of Borrower. This Agreement shall be deemed an agreement of suretyship.

5. If an Event of Default occurs under any of the Loan Documents and continues beyond any applicable notice and grace periods set forth therein, Lender may, and is hereby authorized at any time and from time to time, without notice to Guarantor (any such notice being expressly waived by Guarantor and to the fullest extent permitted by law, to set off and apply any and all deposits, general or special, time or demand, provisional or final, at any time held and other indebtedness at any time owing by Lender to or for the credit or the account of Guarantor, against any and all obligations of Guarantor now or hereafter existing under this Agreement, irrespective of whether or not Lender shall have made any demand under this Agreement and although such obligations may be contingent or un-matured. Lender agrees to notify Guarantor after such setoff and application made by Lender, provided that the failure to give such notice shall not affect the validity of such setoff and application.

6. Until all of the Guaranteed Obligations are completely fulfilled to the satisfaction of Lender and each and every one of the terms, covenants, and conditions of this Agreement are fully performed, the liability of Guarantor under this Agreement shall in no way be released or affected by:

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(a) any act or circumstance which might, but for this paragraph, be deemed a legal or equitable discharge of any guarantor or surety, or

(b) reason of the alteration, extension, modification, endorsement, release or waiver of any Loan Document or any of the terms, covenants and conditions contained in any Loan Document, or

(c) reason of any waiver, extension, modification, forbearance or delay or other act or omission of Lender or its failure to proceed promptly or otherwise with respect to the Guaranteed Obligations or this Agreement, or

(d) the commencement, existence or completion of any proceeding against Borrower or otherwise related to the collection and enforcement of the Guaranteed Obligations, or

(e) reason of any action taken or omitted or circumstance which might vary the risk or affect the rights or remedies of Guarantor with respect to the Guaranteed Obligations or this Agreement. Guarantor hereby expressly waives and surrenders any defenses to its liability hereunder based upon any of the foregoing acts, omissions, agreements, or waivers of Lender, it being the purpose and intent of the parties hereto that the obligations of Guarantor hereunder are absolute and unconditional.

(f) Guarantor hereby irrevocably waives any notice of any compromise, forbearance, indulgence, amendment, modification, endorsement, extension, or renewal of any of the Guaranteed Obligations or any of the terms, covenants or conditions of any of the Loan Documents. Guarantor further irrevocably waives notice of (i) any loans or advances made by Lender to Borrower, (ii) acceptance of this Agreement, (iii) the execution and delivery by Borrower and Lender of any other loan or credit agreement or of Borrower's execution and delivery of any promissory notes or other documents arising under the Loan Documents or in connection with the Mortgaged Property, (iv) the occurrence of any breach by Borrower or an Event of Default, (v) Lender's transfer or disposition of the Guaranteed Obligations, or any part thereof, (vi) sale or foreclosure (or posting or advertising for sale or foreclosure) of any collateral for the Guaranteed Obligations, (vii) protest, proof of non-payment or default by Borrower, (viii) the release of all, or any portion, of the collateral for the Loan, and (ix) any other action at any time take or omitted by Lender and, generally, all demands and notices of every kind in connection with this Agreement, the Loan Documents, any documents or agreements evidencing, securing or relating to any of the Guaranteed Obligations and the obligations hereby guaranteed.

7. Guarantor consents to all of the terms, covenants, and conditions of all of the other Loan Documents (all of which are hereby incorporated herein) and any other document governing or relating to any of the Guaranteed Obligations. Guarantor represents and warrants that:

(a) Guarantor has full power, authority and legal right to execute, deliver and comply with this Agreement, all actions of Guarantor and other authorizations necessary or appropriate for the execution and delivery of and compliance with this Agreement have been taken or obtained and this Agreement constitutes the valid and legally binding obligation of Guarantor enforceable against Guarantor in accordance with its terms. If the Guarantor is not a natural person, Guarantor is duly organized, validly existing and in good standing under the laws of Guarantor's state of organization and is duly qualified, authorized to do business and in good standing in every other jurisdiction in which it must be qualified.

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(b) No consent, approval, or other authorization of or by any court, administrative agency, or other governmental authority is required in connection with Guarantor's execution and delivery of or compliance with this Agreement.

(c) The execution and delivery of and compliance with this Agreement by Guarantor will not conflict with or result in a breach of any applicable law, judgment, order, writ, injunction, decree, rule or regulation of any court, administrative agency or other governmental authority, or of any agreement or other document or instrument to which Guarantor is a party, or by which Guarantor or any of Guarantor's property is bound, and such action by Guarantor will not result in the creation or imposition of any lien, charge or encumbrance upon any property of Guarantor in favor of anyone other than Lender. If the Guarantor is not a natural person, the making and performance of this Agreement will not violate Guarantors Organizational Documents.]

(d) There is no action, suit or proceeding pending or, to the knowledge of Guarantor, threatened against or affecting Guarantor before or by any court, administrative agency or other governmental authority, or which brings into question the validity of the transactions contemplated hereby.

(e) Guarantor has not applied or consented to the appointment of a receiver, trustee, or liquidator of itself or any of Guarantor's property, has not admitted in writing Guarantor's inability to pay debts as they mature, has not made a general assignment for the benefit of creditors, been adjudicated a bankrupt, or insolvent or filed a voluntary petition in bankruptcy, nor has a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation law or statute, or an answer admitting the material allegations of a petition filed against it in any proceeding under any such law, and no action has been taken by Guarantor for the purpose of effecting any of the foregoing. No order, judgment or decree has been entered by any court of competent jurisdiction approving a petition seeking reorganization of Guarantor or all or a substantial part of the assets of Guarantor, or appointing a receiver, sequestrator, trustee, or liquidator of any of Guarantor's property.

(f) Guarantor has received and read all of the Loan Documents, and the Loan is and will be of direct interest, benefit, and advantage to Guarantor.

(g) All other representations and warranties relating to Guarantor contained in the Loan Documents are true and correct.

8. Guarantor further represents and warrants that Guarantor's financial statements (the "Financial Statements") heretofore delivered to Lender are true and correct in all material respects, have been prepared in accordance with GAAP, and fairly represent the financial conditions as of the date thereof and for the periods shown therein; that no Material Adverse Change has thereafter occurred in the financial conditions reflected therein; and that the assets shown on the Financial Statements are wholly owned by Guarantor, and are not jointly owned with any other person or entity except as otherwise stated in the Financial Statements. Guarantor covenants and agrees (a) that Guarantor shall notify Lender promptly of any Material Adverse Change; (b) that Guarantor shall deliver to Lender such financial documentation as set forth in the Loan Documents; (c) that Guarantor shall deliver to Lender such other financial information as Lender from time to time reasonably may request; (e) that Guarantor shall maintain complete and accurate books and records and make them available for inspection by Lender as Lender may reasonably request; and (f) that Guarantor will perform and observe all of the other terms, covenants and agreements set forth in

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the Loan Documents that are required to be performed or observed by Guarantor as a "Guarantor", "Borrower Party" or otherwise.

9. Guarantor shall indemnify and hold Lender and the other Indemnified Parties harmless from and against any and all claims, demands, losses, judgments, liabilities, costs or expenses (including, without limitation, reasonable attorneys' fees and disbursements) which Lender or the other Indemnified Parties may incur arising out of or resulting from any default of Borrower under the Loan Documents, or enforcement or exercise of any right or remedy granted to the Lender under the Loan Documents.

10. Except as otherwise provided in this Agreement or in any of the other Loan Documents, Guarantor hereby consents and agrees to each of the following and agrees that Guarantor's obligations under this Agreement shall not be released, diminished, impaired, reduced or adversely affected by any suretyship defense and/or any of the following and waives any and all common law, equitable, statutory or other rights (including without limitation rights to notice) which Guarantor might otherwise have as a result of or in connection with any of the following:

(a) any notice of Lender's intention to act in reliance on this Agreement or in reliance hereon;

(b) demand, presentment for payment, notice of nonpayment, protest, notice of protest and all other notices of any kind, or the lack of any thereof, including without limiting the generality of the foregoing, notice of the existence, creation or incurring of any new or additional indebtedness or obligation or of any action or non-action on the part of Lender, any endorser or creditor of either Guarantor or any other person whomever under this or any other instrument in connection with any obligation or evidence of indebtedness held by Lender;

(c) the commencement or prosecution of any enforcement, proceeding, including any proceeding in any court, against Borrower or any other person or entity with respect to any obligations arising out of the Loan Documents;

(d) any right to require Lender to proceed against any other person or to proceed against or exhaust any security held by Lender at any time or to pursue any other remedy in Lender's power or under any other agreement before proceeding against Guarantor hereunder;

(e) any defense that may arise by reason of the incapacity, lack of authority, death or disability of any other person or persons or the failure of Lender to file or enforce a claim against the estate (in administration, bankruptcy or any other proceeding) of any other person or persons;

(f) any defense based upon an election of remedies by Lender;

(g) any right or claim of right to cause a marshaling of the assets of Borrower or any Guarantor;

(h) any principle or provision of law, statutory or otherwise, which is or might be in conflict with the terms and provisions of this Agreement;

(i) any duty on the part of Lender to disclose to Guarantor any facts Lender may now or hereafter know about the Mortgaged Property, regardless of whether Lender has reason to believe that any such facts materially increase the risk beyond that which Guarantor intends to assume or has reason to believe that such facts are unknown to Guarantor or has a reasonable opportunity to

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communicate such facts to Guarantor, if being understood and agreed that Guarantor is fully responsible for being and keeping informed of the condition of the Mortgaged Property and of any and all circumstances bearing on the risk that liability may be incurred by Guarantor hereunder;

(j) any lack of notice of disposition or of manner of disposition of any collateral for the Loan;

(k) any invalidity, irregularity or unenforceability, in whole or in part, of any one or more of the Loan Documents;

(l) any lack of commercial reasonableness in dealing with the collateral for the Loan;

(m) any deficiencies in the collateral for the Loan or any deficiency in the ability of Lender to collect or to obtain performance from any persons or entities now or hereafter liable for the payment and performance of any obligation hereby guaranteed;

(n) any assertion or claim that the automatic stay provided by 11 U.S.C. §362 (arising upon the voluntary or involuntary bankruptcy proceeding of Borrower) or any other stay provided under any other debtor relief law (whether statutory, common law, case law or otherwise) of any jurisdiction whatsoever, now or hereafter in effect, which may be or become applicable, shall operate or be interpreted to stay, interdict, condition, reduce or inhibit the ability of Lender to enforce any of its rights, whether now or hereafter required, which Lender may have against Guarantor, if any, or the collateral for the Loan; and

(o) any modifications of the Loan Documents or any obligation of Borrower relating to the Loan by operation of law or by action of any court, whether pursuant to Title 11 of the United States Code, as amended, or any other debtor relief law (whether statutory, common law, case law or otherwise) of any jurisdiction whosoever, now or hereafter in effect, or otherwise.

11. Nothing herein contained is intended or shall be construed to give Guarantor any right of subrogation in or under any of the Loan Documents or any right to participate in any way therein, notwithstanding any payments made by the undersigned under this Agreement, any and all such rights of subrogation and participation being hereby expressly, unconditionally and irrevocably waived and released until the Guaranteed Obligations are fully paid to Lender and satisfied. Guarantor hereby further unconditionally and irrevocably waives, releases and abrogates any and all rights it may now or hereafter have to assert any claim against or seek contribution, indemnification or any other form of reimbursement from Borrower or any other party liable for payment of any or all of the Guaranteed Obligation for any payment made by Guarantor under or in connection with this Agreement or otherwise.

12. This Agreement shall be a continuing, absolute, and unconditional guarantee regardless of the validity, regularity, enforceability, or legality of (a) any of the Guaranteed Obligations, (b) any collateral securing the Guaranteed Obligations, or (c) any term of any document evidencing or relating to any of the Guaranteed Obligations including the Loan Documents. In the event that for any reason one or more of the provisions of this Agreement or their application to any person or circumstance shall be held to be invalid, illegal, or unenforceable in any respect or to any extent, such provisions shall nevertheless remain valid, legal, and enforceable in any such other respects and to such extent as may be permissible. In addition, any such invalidity, illegality or unenforceability shall not affect any other provision hereof, but this Agreement shall be construed as if such invalid, illegal, or unenforceable provision had never been contained herein.

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13. Any notice or communication required or permitted under this Guaranty must be made in writing and sent by (a) personal delivery, (b) expedited delivery service with proof of delivery, or (c) United States Mail, postage prepaid, registered or certified mail, addressed to such address as Lender or Guarantor may designate in writing and deliver in accordance with this section. Any change of address will be effective on the 2nd Business Day after notice is given pursuant to the terms of this Section. Any notice or communication sent in accordance with this section will be deemed to be given when received if delivered personally, on the next business day if sent by an overnight commercial courier or two days after the date mailed if sent by certified or registered mail.

14. No modification of this Agreement shall be effective unless in writing and signed by Lender and Guarantor.

15. This Agreement shall be binding upon Guarantor and Guarantor's, heirs, executors, trustees, personal representatives, successors, and assigns (as applicable) and shall inure to the benefit of Lender, its successors and assigns.

16. In this Agreement the singular includes the plural and the plural the singular; references to statutes are to be construed as including all statutory provisions consolidating, amending, or replacing the statute referred to; the word "or" shall be deemed to include "and/or", the words "including", "includes" and "include" shall be deemed to be followed by the words "without limitation"; references to "attorneys' fees" shall be deemed to be followed by the words "and disbursements"; and references to sections or exhibits are to those of this Agreement unless otherwise indicated. Section headings in this Agreement are included for convenience of reference only and shall not constitute a part of this Agreement for any other purpose.

17. This Agreement shall be construed in accordance with and governed in all respects by the laws of the **[PROPERTY STATE]** without giving effect to principles governing conflicts of laws.

18. **TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW GUARANTOR HEREBY AGREES NOT TO ELECT A TRAIL BY JURY OF ANY ISSUE TRIABLE OF RIGHT BY JURY AND WAIVES ANY RIGHT TO TRAIL BY JURY FULLY TO THE EXTENT THAT ANY SUCH RIGHT SHALL NOW OR HEREAFTER EXIST WITH REGARD TO THIS AGREEMENT, THE NOTE, THE SECURITY INSTRUMENT, THE OTHER LOAN DOCUMENTS, OR ANY CLAIM, COUNTERCLAIM OR OTHER ACTION ARISING IN CONNECTION THEREWITH. THIS WAIVER OF RIGHT TO TRIAL BY JURY IS GIVEN KNOWINGLY AND VOLUNTARILY BY GUARANTOR AND IS INTENDED TO ENCOMPASS INDIVIDUALLY EACH INSTANCE AND EACH ISSUE AS TO WHICH THE RIGHT TO A TRIAL BY JURY WOULD OTHERWISE ACCRUE, LENDER IS HEREBY AUTHORIZED TO FILE A COPY OF THIS PARAGRAPH IN ANY PROCEEDING AS CONCLUSIVE EVIDENCE OF THIS WAIVER BY GUARANTOR.**

19. To facilitate execution, this Agreement may be executed in as many counterparts as may be convenient or required. It shall not be necessary that the signatures of, or on behalf of, each party, or that the signature of all persons required to bind any party, appear on each counterpart. All counterparts shall collectively constitute a single instrument. It shall not be necessary in making proof of this Agreement to produce or account for more than a single counterpart containing the respective signatures of, or on behalf of, each of the parties hereto. Any signature page to any counterpart may be detached from such counterpart without impairing the legal effect of the signatures thereon and thereafter attached to another counterpart identical thereto except having attached to it additional signature pages.

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IF MORE THAN ONE GUARANTOR IS A SIGNATORY TO THIS AGREEMENT, THE LIABILITY OF EACH GUARANTOR SHALL BE JOINT AND SEVERAL.

[Signature Page to Follow]

IN WITNESS WHEREOF, Guarantor has executed this Agreement as of the day and year first above written.

GUARANTOR:

By: _____

Name: _____

By: _____

Name: _____

By: _____

Name: _____

By: _____

Name: _____

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19.4 Consent of Spouse

FCM

CONSENT OF SPOUSE

I,_____ spouse of _____acknowledge that I have read the _____**[Guaranty]** dated as of_____ **[Closing Date]**, by _____**[Name of Guarantor]** (the "Guaranty"), and that I know the contents of the Guaranty. I am aware that the Guaranty contains provisions guaranteeing amounts for the benefit of _____**[Name of Borrower]** ("Borrower") and in support of that certain promissory note incurred by Borrower and payable to the order of _____ **[Name of Seller]** ("Seller"), as well as other obligations under the Guaranty:

I hereby expressly approve of the Guaranty in its entirety, including, but not limited to, that my spouse guarantees to Seller the full and prompt payment when due, whether at the Maturity Date or earlier, the entire amount due under the promissory note (as defined in the Guaranty).

I am aware that the legal and related matters contained in the Guaranty are complex and that I have been advised to seek independent professional guidance or counsel with respect to this Consent. I have either sought such guidance or counsel or determined after reviewing the Guaranty carefully that I will, and hereby do, waive such right.

Signed _____

Name of Spouse _____

Spouse Address _____

State of _____

County of _____

The foregoing instrument was acknowledged before me on this _____, 20____ by _____ (spouse).

(Notary Seal)

Signature of Notary Public

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19.5 Revisions and Changes

Date	Effective Date	Previous Guidance	NEW Guidance (*Effective immediately unless otherwise noted*)
9/14/26	9/18/26	**Section 8.43 – Hazard Insurance** **Mortgagee Clause**	**REVISED:** Address: 500 East Park Avenue, Suite 900 Orem, UT 84097
9/14/26	9/18/26	**Section 8.45 – Condominium Insurance Requirements** **Condominium Project Questionnaire Review** A Condominium Project Questionnaire Review is required for all condominium projects.	**ADDED:** Except for site condo or 2-4 unit projects.
9/14/26	9/18/26	**Section 9.2 – Entity Vesting: LLCs, Partnerships, Corporations, and S Corporations** Foreign Certificate of Good Standing (if entity formed out-of-state)	**REMOVED:** Foreign Certificate of Good Standing (if entity formed out-of-state)
9/14/26	9/18/26	**Section 11.0 Transaction Types**	**ADDED:** **Ineligible Purchase Transactions:** • Assignment of contract
9/14/26	9/18/26	**Section 11.4 – Cash-Out Refinance: Cash Out Seasoning/ Definition** Cash-out seasoning is defined as the period of time the borrower has held ownership of the subject property, measured from the property acquisition date (Note Date) to the Note Date of the new transaction.	**REVISED:** Cash-out seasoning is defined as the period of time the borrower has held ownership of the subject property, measured from the property acquisition date ~~(Note Date)~~ to the Note Date of the new transaction.
9/14/26	9/18/26	**Section 15.1 – Rental Income – Debt Service Coverage Ratio (DSCR)**	**REMOVED:** **Refinance Transaction/ Vacant Properties:** Evidence of active property rental listing required

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			Business Narrative Business Narrative Form is not required for DSCR transactions.
9/14/26	9/18/26	**Full ALT Doc Matrix:** **LTV FICO Matrix (footnote)** 2-4 units: MAX LTV/ CLTV 80%	**ADDED:** Primary Residence or Investment Only
9/14/26	9/18/26	**DSCR Matrix:** **Interest Only**	**ADDED:** INTEREST ONLY: 0x30x12 housing history required
	9/18/26	**DSCR Matrix:** **Loan Amounts** (Minimum): $100k	**REVISED:** Minimum Loan amount: $125k
9/14/26	9/18/26	**DSCR Matrix:** **Credit Events**	**REVISED:** Updated to max 75% for purchase, 70% for Rate/ Term
9/14/26	9/18/26	**DSCR Matrix:** **Housing History** Rent Free borrowers are eligible IF:	**ADDED:** Borrower has a minimum 700 FICO, and **REMOVED:** Experienced investor with 12 month mortgage history and residing rent free - MIN 700 FICO required
7/30/26	8/20/26	**Section 1.1 – Ability To Repay (ATR)** ATR underwriting factor: Debts (reported by a credit bureau or disclosed by the consumer), alimony, and child support obligations.	**REVISED/ ADDED:** All debts (reported by a credit bureau or disclosed by the consumer) alimony, child support, and any debts with less than 10 payments excluded from DTI.
7/30/26	8/20/26	**Section 3.1 – Business Assets: DSCR Loans** Non-borrowing owners must provide a signed letter confirming the transaction and the borrower's access to funds.	**ADDED:** Asset in vesting entity's account can be used at 100% for down payment, closing costs and reserves. **All other business owners must confirm use of assets.**
7/30/26	8/20/26	**Section 3.3 Gift Funds**	**ADDED:** **Eligibility:** • Primary Residence = 5% Minimum required investment on LTV >75% • Second Home = 5% Minimum required Investment

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			• Investment = 10% Minimum Required Investment. Not permitted when LTV/CLTV > 80% • Gift funds are not eligible on the Asset Utilization program • Gift funds may not be used to meet the reserve requirements. **REMOVED:** Refer to Sharp Advantage Program Matrix for eligibility.
7/30/26	8/20/26	**Section 3.7 – Foreign Assets** Funds for down payment, closing costs, and reserves must be seasoned for at least 60 days. Assets transferred to a U.S. financial institution within 60 days of application are acceptable if: **Reserves:** Foreign account funds may be used for reserves.	**REVISED:** Funds for down payment, closing costs, and reserves must be seasoned for at least 30 days in a U.S financial institution or associated with a U.S. Institution. Assets transferred to a U.S. financial institution within 30 days of application are acceptable if: **Reserves:** Foreign account funds may be used for reserves and must be in a U.S financial institution or associated with a U.S. Institution.
7/30/26	8/20/26	**Section 4.6 – Credit Score Requirements** Full/Alternative Documentation and Debt Service Coverage Ratio – Representative Credit Score determination: • Use the middle score when three agency scores are available • Use the lower score when only two agency scores are available	**ADDED:** (to both Full/Alternative Documentation and DSCR): A minimum of two FICO scores is required
7/30/26	8/20/26	**Section 4.7 Credit Re-Scoring** **Eligible:** Rapid re-score for confirmation of debt payoff/paydown or correction of reporting errors. Updated credit score may be used for qualification.	**REMOVED:** Rapid re-score for confirmation of debt payoff/paydown or correction of reporting errors.
7/30/26	8/20/26	**Section 4.17 – No Housing History (Rent-Free) or Less Than 12 Months Verified**	**REVISED:** • Evidence **borrower** is on title, and

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		Borrowers living in the marital home: • Evidence spouse is on title, and • Proof of 12-month payment history, or evidence the residence is owned free and clear	• Proof of 12-month payment history, or evidence the residence is owned free and clear **ADDED:** LOE confirming borrower resides in marital home
7/30/26	8/20/26	**Section 5.7 – Installment Debt** Must be included in DTI unless: 10 or fewer payments remain	**ADDED:** Refer to Ability To Repay (ATR) section for additional information on installment debt.
7/30/26	8/20/26	**Section 6.31 Rental Income – Alternative Documentation Loans (ALT Doc)** **Documentation Requirements:** • Fannie Mae Form 1007/1025 (Comparable Rent Schedule), or • Copy of the executed lease agreement from seller, and • Proof of receipt for the most recent 2 months. e.g., bank statements or payment records)	**REMOVED:** OR • Copy of the executed lease agreement from seller, and • Proof of receipt for the most recent 2 months. e.g., bank statements or payment records)
7/30/26	8/20/26	**Section 8.24 – Declining Markets/ Value** If the appraiser indicates the subject property is located in a declining market, the following apply: • The appraisal must be reviewed by the underwriter for confirmation of market trends and valuation impact. • A valuation reduction may be applied at the underwriter's discretion to account for market risk.	**REMOVED:** • A valuation reduction may be applied at the underwriter's discretion to account for market risk.
7/30/26	8/20/26	**Section 8.39 – Property Types: Ineligible Property Types**	**REVISED:** (clarification): Shop House (or shouse) **REMOVED:** Commercially Zoned Properties (unless a residential condominium)
7/30/26	8/20/26	**Section 8.45 Condominium Insurance Requirements** **PERS Project Approvals**	**ADDED:** Full Project Review is required on ALL Sharp Advantage products.

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		Projects approved by Fannie Mae's Condo Project Manager (PERS) are acceptable if: • The PERS approval is valid as of the note date. • The project meets General Condominium Requirements. • The project is not listed as ineligible. PERS approvals are valid for 18 months from the issue date. New condominium projects in Florida are only eligible with valid PERS approval.	**REMOVED:** **PERS Project Approvals** Projects approved by Fannie Mae's Condo Project Manager (PERS) are acceptable if: • The PERS approval is valid as of the note date. • The project meets General Condominium Requirements. • The project is not listed as ineligible. PERS approvals are valid for 18 months from the issue date. New condominium projects in Florida are only eligible with valid PERS approval.
7/30/26	8/20/26	**Section 9.2 – Entity Vesting: LLCs, Partnerships, Corporations, and S Corporations** **General Requirements** Personal Guaranty: Required from members with >50% ownership; full recourse.	**REVISED:** Personal Guaranty: Required from members with >=50% ownership; full recourse. **ADDED:** • Borrower Ownership: Minimum 25% of the vesting entity. • Layered Entities: ○ Maximum of two layers • Borrower(s) must be 100% owner of the subordinate entity **REMOVED:** Underwriting & Pricing: Based on guarantors' credit scores and creditworthiness.
7/30/26	8/20/26	**Section 9.2 – Entity Vesting:** **Required Documentation by Entity Type – Limited Liability Company (LLC)** Certificate of Good Standing	**REVISED:** Certificate of Good Standing (not required for new entities formed in the past 90 days)
7/30/26	8/20/26	**Section 11.4 – Cash-Out Refinance: Ineligible Cash-Out Transactions (DSCR transactions – consumer purposes)** Lines of credit secured by the subject property	**REVISED**: Personal Lines of Credit
7/30/26	8/20/26	**Section 14.0 Bank Statements – Personal**	**ADDED:** Borrowers who can provide evidence of

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		Length of Self-Employment Refer to Sharp Advantage Matrix	self-employment for 2 years, or • A minimum of no less than 1 year with evidence the borrower has been in the same line of work for no less than 2 years. • Business must be in existence for no less than 1 year.
7/30/26	8/20/26	**Section 15.1 – Rental Income – Debt Service Coverage Ratio (DSCR)**	**REMOVED:** **Annual – Long Term Leases – Purchase Transaction: Documentation Requirements** OR • Copy of the executed lease agreement from seller, and • Proof of receipt for the most recent 2 months (e.g., bank statements or payment records) IF rents exceed market **Expense Factor:** When Fannie Mae Form 1007/1025 provides a short-term rental analysis the greater of a 20% expense factor or actual expenses provided by the 3rd party management company must be applied. When Fannie Mae Form 1007/1025 provide long-term (annual) rentals, no expense factor is required. **ADDED:** **Debt Service Coverage Ratio** = • Verified monthly rents/PITIA (Fully Amortizing) or ITIA (Interest Only Loans) • Confirmation from appraiser or a third party vendor validating the governing municipality allows properties to be rented as short term rentals (STR) **REVISED:** **Power of Attorney (POA)** Not permitted on cash out, trusts and entity vesting.
7/30/26	8/20/26	**Section 16.0 Sharp 1099 Income Documentation** For 1099(s) issued to the borrower's LLC are subject to the following additional requirements:	**ADDED:** Supporting the borrower has no ownership in the business that issued 1099.

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7/30/26	8/20/26	**Section 17.0 – Sharp Profit and Loss: Qualifying Income**	**ADDED:** The following may be added back to the qualifying income calculation: • Depreciation • Depletion • Amortization/Casualty Loss
7/30/26	8/20/26	**Section 18.0 – Sharp Asset Utilization**	**ADDED:** **Asset Supplementation -** The minimum asset requirement does not apply.
7/30/26	8/20/26	**Full ALT Doc Matrix:** **CONDOS** FL Condos: New construction – PERS approval required	**REMOVED:** FL Condos: New construction – PERS approval required
7/30/26	8/20/26	**Full ATL Doc Matrix:** **NON-OCCUPANT CO-BORROWER** Full Doc | Purchase | 1-Unit Owner Occupied | MAX 80% LTV/ CLTV | MAX DTI 43% | 6 months reserves required |Occupying borrower must qualify for >=75% of PITIA | Non-Occupant Co-Borrower must be on title	**ADDED:** Full Doc /Alt Doc | Purchase | 1-Unit Owner Occupied | MAX 80% LTV/ CLTV | MAX DTI 43% | 6 months reserves required |Occupying borrower must qualify for >=75% of PITIA | Non-Occupant Co-Borrower must be on title
7/30/26	8/20/26	**Full ALT Doc Matrix:** **PROPERTIES LISTED FOR SALE** • Property must be taken off the market prior to the date of the application • All Property Types - Use the lower of the original listing price (lowest) or appraised value	**ADDED:** • MIN 3 YR PPP when State permits | If PPP is not State permitted = 5% LTV reduction • Cash out: 10% LTV reduction required **REMOVED:** "All Property Types" (Use the lower of the original listing price (lowest) or appraised value – remains)
7/30/26	8/20/26	**Full ALT Doc Matrix:** **EXPENSE FACTOR** Utilize one of the following business expense analysis methods:	**ADDED:** Utilize one of the following business expense analysis methods: • 10% expense factor (90% Net Margin), or • Lower expense factor may be used when verified on Third Party prepared business expense statement letter (e.g., CPA, EA, accountant, tax preparer).
7/30/26	8/20/26	**DSCR Matrix:**	**REVISED:**

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		DSCR Calculations – Short Term Rentals: Purchase – Income Calculation 1007/1025 market rents or actual calculated rents may be used	1007/1025 or a Short term rental analysis. The market rents or actual calculated rents may be used. • Confirmation from appraiser or a third party vendor validating the governing municipality allows properties to be rented as short term rentals **REMOVED:** **Expense Factor:** • When applying FNMA 1007/1025 utilizing short-term rentals, a 20% expense factor must be used • When applying actual rents, no expense factor required. Utilize net rental income after expenses. • When applying FNMA 1007/1025 utilizing long-term rentals - no expense factor is required
7/30/26	8/20/26	**DSCR Matrix:** **DSCR Calculations – Short Term Rentals: Refinance – Income Calculation** 12 months average of rents provided by 3rd party management company or market rents from FNMA Form 1007/1025	**REVISED:** 12 months average of rents provided by 3rd party management company or market rents from FNMA Form 1007/1025 or Short term rental analysis
7/30/26	8/20/26	**DSCR Matrix:** **Vacant/ Unleased Properties**	**ADDED:** (Refinance) Vacancy eligible if due to recent renovations of the subject property, OR in between tenants.
7/30/26	8/20/26	**DSCR Matrix:** **Housing History** 1 X 30 X 12 - for all mortgages reporting on credit report | Non-Subject & non-primary residence not reporting on credit do not need to verified.	**REVISED** 1 X 30 X 12 - for Primary, Subject and all mortgages reporting on credit report | Non-Subject & non-primary residence not reporting on credit do not need to verified. **ADDED:** INTEREST ONLY: 0x30x12 housing history required
5/11/26	5/13/26	**Section 2.4 – Verification of Residency Status** **Verification of Residency Status**	**REVISED:** **Verification of Residency Status** • Refer to the FCM Borrower Eligibility Matrix

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		The following visa classifications are acceptable for Non-Permanent Resident Alien eligibility: • H-1B, H-1B1, H-1B2, H-1B3 • L-1A, L1B • O-1A and O1B • TN – NAFTA	
5/11/26	5/13/26	**Section 3.1 – Business Assets:** Alternative Documentation loans:	**ADDED:** Inconsistent or large deposits should be sourced or excluded from the analysis. The definition of an inconsistent or large deposit is any deposit exceeding 100% of the average monthly sales of the business.
5/11/26	5/13/26	**Section 3.1 – Business Assets:** DSCR loans:	**REMOVED:** Inconsistent or large deposits should be sourced or excluded from the analysis. The definition of an inconsistent or large deposit is any deposit exceeding 100% of the average monthly sales of the business.
5/11/26	5/13/26	**Section 3.21 – Unacceptable Assets**	**REMOVED:** Bridge Loan from a departing residence (now eligible)
	5/13/26	**Section 6.29 – Rental Income – Full Documentation** Refer to Fannie Mae Guidelines	**REVISED:** Rental income may be included in loan qualification meeting the following requirements: **<u>Annual – Long Term Leases</u>** **Purchase Transaction** **Documentation Requirements:** • Fannie Mae Form 1007/1025 (Comparable Rent Schedule), or • Copy of the executed lease agreement from seller, and • Proof of receipt for the most recent 2 months. e.g., bank statements or payment records) **Vacant Properties:** Eligible for purchase transactions.

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			Refinance Transaction Documentation Requirements: • Fannie Mae Form 1007/1025 (Comparable Rent Schedule), or • Most recent executed annual lease agreement (if no active lease, month to month is acceptable with 2 months proof of receipt), and • Evidence of receipt for past 2 months, e.g., canceled checks/electronic receipt IF using above market rent **Vacant Properties:** Eligible for refinance IF the vacancy is due to recent renovations or rehabilitation of the subject property OR between tenants. • Appraisal must support the fact that recent work has been completed and provide visual evidence • Evidence of active property rental listing required • Fannie Mae Form 1007/1025 will be used to determine rents **Rental Determination** **Purchase –** Executed lease amounts with supporting documentation or Fannie Mae Form 1007/1025. When lease and Fannie Mae Form 1007/1025 provided, the lesser of the two amounts to be used to determine the rental amounts. **Refinance –** The lesser of the Fannie Mae Form 1007/1025 or actual lease amounts. **Rental Income – Income Eligibility** 75% of the verified monthly rental income may be used to offset the property's PITIA (Principal, Interest, Taxes, Insurance, and Association fees). **Rental Income – Income from Other REO/ Investment Property:** • Provide a lease and 2 months' bank statements showing deposit of the rent. - If the aggregate monthly qualifying rental income (as defined above) minus the full PITIA is positive, it must

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			be added to the borrower's total monthly income **OR** - If the aggregate monthly qualifying rental income minus PITIA is negative, the monthly net rental loss must be added to the borrower's total monthly obligations.
5/11/26	5/13/26	**Section 6.31 Rental Income – Alternative Documentation Loans (ALT Doc)**	**ADDED**: **Rental Income – Income from Other REO/ Investment Property:** • Provide a lease and 2 months' bank statements showing deposit of the rent. - If the aggregate monthly qualifying rental income (as defined above) minus the full PITIA is positive, it must be added to the borrower's total monthly income **OR** - If the aggregate monthly qualifying rental income minus PITIA is negative, the monthly net rental loss must be added to the borrower's total monthly obligations
5/11/26	5/13/26	**Section 8.45: Condominium Insurance Requirements** New Projects: New condominium projects are only eligible with valid PERS approval.	**REVISED:** New condominium projects in Florida are only eligible with valid PERS approval.
5/11/26	5/13/26	**Section 8.45: Non-Warrantable Condominium** Single Entity Ownership: Up to 30% of units may be tenant occupied	**REVISED:** Single entity can own up to 30% of units
5/11/26	5/13/26	**Section 9.2: Entity Vesting, LLCs, Partnerships, Corporation and S Corporations**	**ADDED:** **General Requirements:** Layered Entities are allowed on a case by case basis
5/11/26	5/13/26	**Full ALT Doc Matrix:** **LTV/ FICO**	**REMOVED:** 640 FICO eligibility across all loan amount/ occupancy types. Min FICO is 660.
5/11/26	5/13/26	**Full ALT Doc Matrix:**	**ADDED:**

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		CASH-OUT	TEXAS CASH OUT: 50(a)(6) Rate and Term | Max 80% LTV | Follow Texas law on all other requirements
5/11/26	5/13/26	**Full ALT Doc Matrix:** **NEW Section: Declining Markets**	**ADDED:** Declining Market: If Appraiser indicates a declining market and LTV is >65%, a 5% LTV reduction is required
5/11/26	5/13/26	**Full ALT Doc Matrix:** **CREDIT EVENTS:** BK 7 & 13 = 36 months from discharge/dismissal | SS, DIL, FC, MOD or 120+ lates = 36 months	**ADDED:** BK 7, 11 & 13 = 36 months from discharge/dismissal | SS, DIL, FC, MOD or 120+ lates = 36 months Credit event seasoning 24-36 months (excluding Chapter 11) : Purchase - Max 80% LTV | Refinance - Max 75% LTV
5/11/26	5/13/26	**Full ALT Doc Matrix:** **Business Bank Statements / Expense Statement** Minimum 10% - CPA/EA/ PTIN/ Tax Attorney prepared Expense Statement covering the same time period as the bank statements	**REVISED:** Minimum 20% - CPA/EA/ PTIN/ Tax Attorney prepared Expense Statement covering the same time period as the bank statements
5/11/26	5/13/26	**Full ALT Doc Matrix:** **Business Bank Statements / Profit and Loss (to support expense factor if <50%)**	**ADDED:** Required if Expense Statement is not provided:
5/11/26	5/13/26	**DSCR Matrix:** **DSCR Calculations – Annual Rentals**	**REMOVED:** All reference to “Above Market Rents” and “Under Market Rents”
5/11/26	5/13/26	**DSCR Matrix:** **DSCR Calculations – Annual Rentals: Refinance** Use the greater of 1007/1025 market rents or actual rents, not to exceed 120% of market rents	**REVISED:** The lesser of 1007/1025 market rents or actual rents, not to exceed 120% of market rents
5/11/26	5/13/26	**DSCR Matrix:** **DSCR Calculations – Short Term Rentals: Purchase**	**REMOVED:** All reference to “Under Market Rents”

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5/11/26	5/13/26	**DSCR Matrix:** **DSCR Calculations – Short Term Rentals: Purchase** Market rents: The greater of 1007/1025 market rents or actual rents may be used, not to exceed 120% of market rents	**REVISED:** 1007/1025 market rents or actual calculated rents may be used
5/11/26	5/13/26	**DSCR Matrix:** **CREDIT EVENTS:** BK 7 & 13 = 36 months from discharge/dismissal | SS, DIL, FC, MOD or 120+ lates = 36 months	**ADDED:** BK 7, 11 & 13 = 36 months from discharge/dismissal | SS, DIL, FC, MOD or 120+ lates = 36 months Credit event seasoning 24-36 months (excluding Chapter 11) : Purchase - Max 80% LTV | Refinance - Max 75% LTV
2/24/26	2/24/26	**Section 4.17 No Housing History (Rent- Free) or Less Than 12 Months Verified**	**ADDED** (under restrictions): • 6 months of reserves required • 10% minimum investment from borrower's own funds required • Not eligible on DSCR transactions
2/24/26	2/24/26	**Section 6.31 – Rental Income – Alternative Documentation Loans (ALT Doc)**	**ADDED:** • (if no active lease, month to month is acceptable with 2 months proof of receipt)
2/24/26	2/24/26	**Section 8.39 – Property Types: Non-Warrantable Condominium** Investor Concentration = Minimum 60% of units sold or under bona fide contract	**REVISED:** Investor Concentration = *Maximum* 60% of units sold or under bona fide contract
2/24/26	2/24/26	**Section 13.0 – Business Bank Statements:** • 2. Business Expense Letter The minimum expense ratio is 10%.	**REVISED:** The minimum expense ratio is 20%.
2/24/26	2/24/26	**Section 15.1 – Rental Income – Debt Service Coverage Ratio (DSCR)**	**ADDED:** • (if no active lease, month to month is acceptable with 2 months proof of receipt) **REMOVED:**

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			• Each Entity owner must apply as the borrower and complete a l003 as an individual applicant.
2/24/26	2/24/26	**Section 16.0 Sharp 1099 Income Documentation** A minimum 2-year self-employment history is required (e.g., 1099 income) as documented from the Employment section of the loan application.	**REVISED:** A minimum 2-year employment history in same line of work is required, as documented from the Employment section of the loan application.
2/24/26	2/24/26	**FULL / ALT Doc Matrix - Business Bank Statements: Profit and Loss** • Minimum 10% - CPA/EA/Tax Attorney / PTIN prepared P&L covering the same period as bank statements • Gross receipts must be within 10% of the bank statement qualifying income	**REVISED:** • Minimum 20% - CPA/EA/Tax Attorney / PTIN prepared P&L covering the same period as bank statements • Gross receipts must be within 20% of the bank statement qualifying income
2/24/26	2/24/26	**FULL / ALT Doc Matrix - Assets as Income:** Transactions	**ADDED:** • second home eligible Crypto as assets not allowed
2/10/26	2/10/26	**Section 3.20 Verification of Assets (Documentation):**	**REMOVED:** If the summary page includes all required information, additional pages are not needed
2/10/26	2/10/26	**Section 6.19 - Ineligible sources of income**	**ADDED:** • Income derived from Crypto not liquidated and does not meet Non-Regulated Financial Asset requirements noted within these guidelines.
2/10/26	2/10/26	**Section 6.31 Rental Income – Alternative Documentation Loans (Alt Doc)**	**ADDED:** Clarification to Vacant Properties / Refinance transaction: • Allowed if in between tenants. **REMOVED** • Appraisal must support the fact that recent work has been completed and provide visual evidence
2/10/26	2/10/26	**Section 9.2 Entity Vesting – Personal Guaranty:** Required from members with >25% ownership; full recourse.	Required from members with >50% ownership; full recourse. **ADDED:** • Ineligible Entities: Land Trusts, Blind Trusts, Life Estates, Non-

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			Profit Corporations, Irrevocable Trust and IRAs.
2/10/26	2/10/26	**Section 10.5 Interest-Only (IO) Loan Qualifying:** DSCR Loans: Interest-only loans, the qualifying payment is based on the interest only period.	DSCR Loans: Interest-only loans, the qualifying payment is based on the interest only payment.
2/10/26	2/10/26	**Section 15.1 Rental Income – Debt Service Coverage Ratio (DSCR)**	**ADDED:** Clarification to Vacant Properties – refinance transaction: • Allowed if in between tenants. **REMOVED:** • Appraisal must support that recent work has been completed and provide visual evidence. • Business Entity Vesting requirements: ○ Each Entity owner must apply as the borrower and complete a l003 as an individual applicant.

2/10/26	2/10/26	**Section 16.0 Sharp 1099 Income Documentation:**	Updated Section for clarification:
			
			Overview
			Permitted for self-employed borrowers earning 100% commission or for independent contractors, documented as follows:
			• 1099(s) issued to the borrower as an individual, or
			• 1099(s) issued to the borrower's LLC subject to the following:
			  - Business Narrative Form must be completed by the borrower, and
			  - Third Party documentation is required verifying borrower is 100% owner of the business, and
			  - Third Party prepared business expense statement letter is required verifying the expense factor is 10% or less. Business expense statement letter to include:

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			▪ Name of the business. ▪ Business expenses as a percentage of the gross annual sales/revenue. ▪ Prepared or reviewed by a Third party with knowledge of the business (e.g., CPA/accountant, IRS Enrolled Agent, or tax preparer). ▪ Signed by the Third party preparer/reviewer. **Requirements** • 1-year or 2-years of 1099s or 1099 transcripts permitted. • A minimum 2-year self-employment history is required (e.g., 1099 income) as documented from the Employment section of the loan application. • Utilize one of the following business expense analysis methods: - 10% expense factor (90% Net Margin), or - Lower expense factor may be used when verified on Third Party prepared business expense statement letter (e.g., 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 when the 1099 reporting period is greater than 120 days from the Note date. YTD earnings must support the ongoing receipt of income shown 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

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			earnings used for qualification.
12/30/25	12/30/25	**Section 11.2 Refinance Transactions Continuity of Obligation** Continuity of obligation is established when at least 1 borrower on the new refinance transaction is also a borrower on the existing mortgage being paid off, or one of the following scenarios must apply: **Acceptable Scenarios:** • A borrower has held title to the subject property for at least 6 months and has made the mortgage payments (including any subordinate liens) during that time, or • Resides in the property for the last 6 months and can demonstrate a relationship (parent, spouse, domestic partner, sibling) with the current obligor. • If less than 6 months of title seasoning: - The borrower must have inherited the property; or - Acquired the property via court order (e.g., divorce decree or legal separation). • The existing loan being refinanced and the title have been held in the name of a natural person or a limited liability corporation prior to the date of the application. • Properties that are owned free and clear meet the continuity of obligation.	REMOVED
12/23/25	12/23/25	**Section 6.20 – IRS FORM 4506-C:** Revised verbiage: • Not required for business tax returns or loans using Bank Statement Documentation	• Required for business tax returns • Not required for loans using Bank Statement Documentation
12/23/25	12/23/25	**Section 8.44 Condominiums:** • Involve critical issues, such as: - Mold, water intrusion, or potentially damaging leaks	REMOVED

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		- Unfunded repairs exceeding $10,000 per unit scheduled within the next 12 months (Excludes unit-owner repairs or repairs funded by special assessments)	
12/23/25	12/23/25	**Section 8.45 Condo Insurance Requirements: Non Warrantable Condo:** Delinquent HOA Dues: No more than 35% of the total units in the project >60 days delinquent	Delinquent HOA Dues: No more than 20% of the total units in the project >60 days delinquent
12/23/25	12/23/25	**Section 14.0 Bank Statements – Personal** Expense Factor A 10% expense factor must be applied when business bank statements are not provided.	Expense Factor A 20% expense factor must be applied when business bank statements are not provided. •
12/23/25	12/23/25	**Section 17.0 Sharp Profit and Loss Business Bank Statements – Tolerance Test** Total deposits from the bank statements must be within 35% of gross receipts on the Profit and Loss Statement.	Total deposits from the bank statements must be within 20% of gross receipts on the Profit and Loss Statement. •

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