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## DSCR Investor Advantage Underwriting Guidelines

### **1. General Requirements**

#### 1.1. Conformance with these Underwriting Guidelines and Policies and Procedures Required

If not addressed, follow FHLMC / FHLMC guidelines with the exceptions noted in the Program Matrices.

##### 1.1.1. Ability to Repay Required

If a loan is originated solely for business purposes, and is secured by an investment property, then it is not required to evaluate the Borrowers' ability to repay, and an attestation regarding the Borrowers' ability to repay is not required from the borrower(s).

#### 1.2. Net Tangible Benefit to the Borrowers Required

The loan must provide a net tangible benefit to the Borrower(s). A tangible benefit may include:

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

For a loan to be eligible, the tangible benefit provided to the Borrower(s) by the loan must exceed the Borrowers' cost to acquire the loan.

#### 1.3. Compliance with ECOA Required

All requirements of the Equal Credit Opportunity Act must be adhered to. The Equal Credit Opportunity Act prohibits discrimination with respect to any aspect of a credit transaction on the basis of sex, race, color, religion, national origin, marital status, age (provided the Borrower has the capacity to enter into a binding contract), receipt of public assistance, or because the Borrower has in good faith exercised any right under the Consumer Credit Protection Act.

#### 1.4. Fair Lending Statement

Best Capital Funding operates in accordance with the provisions of the Fair Housing Act and Equal Credit Opportunity Act. The Fair Housing Act makes it unlawful to discriminate in housing-related activities against any person because of race, color, religion, national origin, sex, handicap, or familial status.

## 1.5. Prepayment Penalties

### Investment Property Only

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 structures may be used:**

- Six months of interest - The prepayment charge will be equal to 6 months of interest on the amount of the prepayment that exceeds 20% of the original principal balance. The charge applies to loans that pay off due to sale or refinance, or curtailments that exceed 20% of the original principal balance in a given 12-month time period. (Not eligible under cross-collateral.)
- 3%, 4%, or 5% fixed percentage - The prepayment charge will be equal to a fixed percentage and applied to any curtailment or the entire outstanding principal balance during the prepay period. The charge applies to loans that pay off due to sale or refinance.
- Declining structures that do not exceed 5% and do not drop below 3% in the first 3 years. For example: (5%/4%/3%/3%/3%) or (5%/4%/3%/2%/1%) - The prepayment charge will be equal to the percentage in effect and applied to any curtailment or the entire outstanding principal balance during the prepay period. The charge applies to loans that pay off due to sale or refinance.

See rate sheet for further detail. The prepayment penalty can be disclosed within the body of the Note or in a separate rider.

The following state restrictions apply:

- Prepayment penalties are not allowed in MI, MN, NM and OH.
- Prepayment penalties are not allowed on loans vested to individuals in IL and NJ.
- Pennsylvania - Prepayment penalties are not allowed on loan balances less than an adjusted value as determined by the Dept of Banking & Securities. For calendar year 2021 the amount is \$263,975.

## 1.6. Escrows

Escrow funds/impound accounts are required to be established for all HPML loans. Escrow funds include, but are not limited to, taxes, insurance (hazard, flood, and mortgage) premiums, water/sewer taxes and ground rents.

Escrow funds/impound accounts can be waived, with the exception of Flood Insurance Premium, for non-HPML loans or exempt business purpose loans when the following requirements are met:

- LTV less than 80%
- Minimum decision credit score of 720
- Minimum 12-months of reserves
- Pricing adjustment may apply, see rate sheet.

1.7. Underwriting Guidelines Amendable at Best Capital Funding’s Option

## 2. Eligible Products

Product	Qualifying Rate	Term	I/O Term	Amortization Term	Index	Caps
15 Year Fixed	Note Rate	180	NA	180	NA	NA
30 Year Fixed	Note Rate	360	NA	360	NA	NA
30 Year Fixed I/O	Note Rate	360	120	240	NA	NA
40 Year Fixed I/O	Note Rate	480	120	360	NA	NA

2.1. Qualifying Payment

The qualifying payment is based upon the principal and interest payment along with 1/12th of the annual real estate taxes, property insurance, any other insurance, and any association dues.

The qualifying payment is based on the amortization term. For interest-only loans, using standard or Alt documentation, this is the remaining term after expiration of the interest-only period. DSCR Investor Advantage loans can be qualified using the interest only payment (ITIA).

2.2. Interest-Only Restrictions

- Minimum FICO – 660
- Maximum LTV/CLTV – 80%
- Maximum loan term – 30 years

2.3. Loan Amounts

- Minimum - \$100,000
- Maximum – Refer to the Program Matrix

Refer to the Program Matrix for additional details.

2.4. Minimum Credit Score

- 620

Refer to the Program Matrix for additional details.

## 3. Program Eligibility

### 3.1. Documentation Age

#### 3.1.1. Credit Documentation

The following documents may not be more than 90 days old as of the Note Date

- Mortgage /rental verification
- Asset documents / bank statements
- Credit Report

The following documents may not be more than 120 days old as of the Note Date

- Title commitment / preliminary report / binder

#### 3.1.2. Appraisal Documentation

The appraisal must be dated within 360 days of the Note date. Recertification of value required if the report will exceed 120 days of the Note Date.

### 3.2. Maximum Financed Properties

Maximum exposure is \$5,000,000 or 10 financed properties with any single investor.

Unlimited financed properties outside of the concentration risk listed above.

### 3.3. Property Listed for Sale

For refinanced transactions. properties that were listed for sale must have been taken off the market on or before the Note Date as evidenced by a canceled real estate contract or MLS listing.

For all cash-out refinances, properties previously listed for sale must be seasoned at least six months from the listing contract expiration date to the loan application date. For investment properties, a listing expiration of less than six months is permitted with a prepayment penalty.

### 3.4. Non-Arm's Length Transaction

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

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

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

### 3.5. Interested Party Transaction

A Conflict-Of-Interest Transaction occurs when the borrower has an affiliation or relationship with the Mortgage Broker, Loan Officer, Real Estate Broker or Agent, or any other interested party to the transaction.

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

### 3.6. Non-Arm's Length and Interested Party Transactions

### 3.7. Examples of Non-Arm's Length and Interested Party Transactions

- Buyer(s)/Borrower(s) representing themselves as agent in real estate transaction.
- Commission earned by buyer/borrower cannot be used for down payment, closing costs, or monthly PITIA reserves.
- Seller(s) representing themselves as agent in real estate transaction.
- Renter(s) purchasing from landlord.
- Purchase between family members.

### 3.8. Non-Arm's Length and Interested Party Restrictions

Not allowed on the DSCR Investor Advantage Program.

## 4. **Borrowers Eligibility**

### 4.1. Residency

#### 4.1.1. United States Citizen

Eligible without any guideline restrictions.

#### 4.1.2. Permanent Resident Alien

An alien admitted to the United States as a lawful permanent resident. Lawful permanent residents are legally accorded the privilege of residing permanently in the United States. Permanent Resident Aliens are eligible without guideline restrictions.

Acceptable evidence of permanent residency include the following:

- Alien Registration Receipt Card I-151 (referred to as a green card).
- Alien Registration Receipt Card I-551 (Resident Alien Card) that does not have an expiration date on the back (also known as a green card).

- Alien Registration Receipt Card I-551 (Conditional Resident Alien Card) that has an expiration date on the back, and is accompanied by a copy of the filed INS Form I-751 (petition to remove conditions).
- Non-expired foreign passport that contains a non-expired stamp (valid for a minimum of three years) reading “Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until [mm-dd-yy]. Employment Authorized.”

#### 4.1.3. Non-Permanent Resident Alien

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

- Legal Status Documentation
  - Visa must be current. If the visa will expire within six (6) months following the close date, additional documentation is required: evidence that the proper extension steps have been followed per the USCIS website, along with proof of payment receipt and proof that the extension was done in the timeframe required by USCIS.
  - When applicable, a valid Employment Authorization Document (EAD) is required for US employment if borrower is not sponsored by a current employer. If the visa will expire within six (6) months of loan application, it is acceptable to obtain a letter from the employer documenting the borrower’s continued employment and continued visa renewal sponsorship. The employer on the loan application must be the same as on the unexpired visa.
  - Eligible Visa Types

Eligible Visa Types						
E-1	E-2	E-3	EB-5	G-1	G-2	G-3
G-4	G-5	H1-B	L-1	NATO	R-1	TN NAFTA

- Guideline Restrictions
  - Maximum LTV/CLTV 70% using DSCR Investor Advantage Documentation (Investment Only) Non-occupant co-borrowers are NOT allowed.
  - Gift funds are NOT allowed.
  - US credit requirements detailed under the Credit of this guide should be used.

#### 4.1.4. Foreign National

A Foreign National is a non-resident alien who is not authorized to live or work in the U.S or holds a work Visa that is indicative of a more temporary residency than those required to meet Non-Permanent Resident Alien requirements. A Foreign National may periodically visit the U.S. for various reasons including vacation and/or business.

Borrowers that are classified as a Foreign National are NOT eligible on the DSCR Investor Advantage Program.

#### 4.2. Non-Occupant Co-Borrower

Non-Occupying Co-Borrower's are NOT eligible on the DSCR Investor Advantage Program.

#### 4.3. First-Time Home Buyers

An individual is to be considered a first-time home buyer who (1) is purchasing the security property; (2) will reside in the security property as a principal residence; and (3) had no ownership interest (sole or joint) in a residential property during the three-year period preceding the date of the purchase of the security property. In addition, an individual who is a displaced homemaker or single parent also will be considered a first-time home buyer if he or she had no ownership interest in a principal residence (other than a joint ownership interest with a spouse) during the preceding three-year time period.

First-Time Home-Buyers are **NOT** eligible on the DSCR Investor Advantage Program.

#### 4.4. Ineligible Borrowers

- Irrevocable Trust
- Land Trust
- Blind Trust
- Borrowers with diplomatic immunity or otherwise excluded from US jurisdiction
- Not-for-profit entity
- Any material parties (company or individual) to the transaction listed on HUD's Limited Denial of Participation (LDP) list, the federal General Services Administration (GSA) Excluded Party list, or any other exclusionary list.

#### 4.5. Borrower Statement of Occupancy

The borrower must acknowledge the intended purpose of the subject property ("Primary Residence", "Second Home", or "Investment") by completing and signing the appropriate sections of the "Occupancy Certification" found in the Occupancy Certification.

Any red flags that may indicate the property is not intended exclusively for investment purposes.

Common occupancy red flags include:

- Subject property value exceeds the value of the borrower's primary residence.
- The borrower is currently renting his/her primary residence.
- Subject property could reasonably function as a second home.

#### 4.6. Borrower Statement of Business Purpose

The borrower must acknowledge that the loan is a business purpose loan by completing and signing the appropriate sections of the Borrower Certification of Business Purpose form in of this guide. Any loan where the proceeds are used primarily for personal, family, or household purposes is considered a

consumer transaction and is not eligible for the DSCR Investor Advantage Program. This includes cash-out on an investment property when loan proceeds are used for any personal use.

## 5. Credit Assessment

### 5.1. Credit Reports

A credit report is required for each individual borrower. The credit report should provide merged credit data from the three major credit repositories: Experian, TransUnion, and Equifax. Either a three-bureau merged report, or a Residential Mortgage Credit Report is required.

The credit report used to evaluate a loan may not reflect a security freeze. If the borrower(s) unfreeze credit after the date of the original credit report, a new tri-merged report must be obtained to reflect current and updated information from all repositories.

#### 5.1.1. Inquiries

**NOT** required for the DSCR Investor Advantage Program.

#### 5.1.2. Gap Credit

A gap credit or Undisclosed Debt Monitoring report is **NOT** required for the DSCR Investor Advantage Program.

### 5.2. Credit Score

Loan eligibility is based upon a Decision Credit score. A valid Decision Credit score requires at least one (1) borrower to have a minimum of two (2) credit scores. Use the lower of two (2) or middle of (3) credit scores generated to determine the Decision Credit score.

For the DSCR Investor Advantage Program, use the lowest Decision Score amongst all borrowers who will be on the Note and Title.

### 5.3. Fraud Check

A fraud report including all parties to the transaction; Borrower(s), Seller(s), Broker, Loan Officer, and Real Estate Agent(s) must be included in the credit file. An updated report or documentation must also be included resolving or clearing any red flags (High and Medium Alerts).

A copy of the original report and the updated final report with all red flags (High and Medium Alerts) resolved or cleared.

### 5.4. Required Mortgage and Housing Payments

A current mortgage/rental history is required for the DSCR Investor Advantage Program. Current means the borrower has made all mortgage payments due in the month prior to the Note Date. If the



credit report does not reflect the current payment history, one of the following additional documents is required:

- A loan payment history from the servicer or third-party verification service,
- A payoff statement (for mortgages being refinanced),
- The latest mortgage account statement from the borrower, or
- A verification of mortgage.

Housing history for the DSCR Investor Advantage Program is limited to verifying the borrower's primary residence and the subject property if a refinance transaction.

For properties owned free and clear, a property profile report or similar document showing no liens against the property should be included in the credit file. Any balloon notes with an expired maturity date exceeding 30 days requires an extension to avoid being counted as delinquent.

If a borrower's mortgage or rental history is not reported on the credit report, a VOM/VOR must be provided. Any VOM/VOR completed by a private-party Seller or any non-institutional lender must be supported by alternative documentation showing the most recent 6-month history (cancelled checks, mortgage/rental statements including payment history, etc.) must be provided. In addition, if the subject transaction is secured by a non-institutional lender, the mortgage payoff statement should be reviewed to determine that no late fees or delinquent interest is included in the payoff amount. A borrower's combined mortgage/rental history is used for program or grade eligibility. For properties owned free and clear, a property profile report or similar document showing no lien against the property should be provided in the credit file.

#### 5.4.1. Borrower's Living Rent-Free

Borrowers who live rent-free with the following restrictions:

- DSCR may not exceed 1.00%
- Any available portion of a 12-month housing history must be paid as agreed.
- Borrower(s) who own their primary residence free and clear aren't considered living rent-free.
- Borrower(s) who sold a primary residence within the past six (6) months and are currently residing rent-free until subject transaction closes are not considered living rent-free.

#### 5.5. Tradeline Requirements

If the primary borrower has three (3) credit scores, the minimum tradeline requirement is waived. For loans when the primary borrower has less than three credit scores, each borrower must meet the minimum tradeline requirements, unless the co-borrower is the spouse of the borrower. In that case, only one spouse is required to meet the minimum tradelines:

- At least three (3) tradelines reporting for a minimum of 12 months, with activity in the last 12 months, or

- At least two (2) tradelines reporting for a minimum of 24 months, with activity in the last 12 months.

Borrowers who do not meet one of the above tradeline requirements, but have a minimum of two credit scores, can alternatively satisfy the tradeline requirement by meeting the below requirements:

- No fewer than eight (8) tradelines are reporting, one (1) of which must be a mortgage or a rental history.
- At least one (1) tradeline has been open and reporting for a minimum of twelve (12) months.
- The borrower has an established credit history for at least eight (8) years.
- Tradelines with recent serious adverse history are **NOT** acceptable
- Student loans can be counted in credit depth as long as they are in repayment and not being deferred

The following are **NOT** acceptable to be counted as tradelines:

- “non-traditional” credit as defined by Fannie Mae®
- self-reported tradeline
- accounts discharged through bankruptcy
- authorized user accounts
- charge-offs
- any liabilities in deferment status
- collection accounts
- foreclosures
- deed-in-lieu of foreclosure
- short sales
- pre-foreclosure sales

#### 5.6. Delinquency and Derogatory Credit

Delinquent credit, such as charge-offs of non-mortgage accounts and collections, have the potential to affect loan position or diminish borrower equity.

For the DSCR Investor Advantage Program, charge-offs and collections can be ignored unless title will be impacted.

#### 5.7. Judgements, Garnishments and Liens

All open judgments, garnishments, and all outstanding liens must be paid off prior to or at loan closing.

#### 5.8. Consumer Credit Counseling Services

Borrower enrollment in Consumer Credit Counseling Services (CCCS) is allowed when a minimum of 12 months have elapsed on the plan, and evidence of timely payments for the most recent 12 months is provided. The CCCS Administrator must also provide a letter allowing the borrower to seek financing on a new home while enrolled in the plan.

A monthly CCCS plan payment must be included in the DTI calculation.

#### 5.9. Income Tax Liens

All tax liens (federal, state, and local) must be paid off prior to or at loan closing unless the requirements listed below are met:

- The file must contain a copy of the approved IRS installment agreement with the terms of repayment, including the monthly payment amount and total amount due (Only one plan allowed).
- A minimum of two (2) payments has been made under the plan with all payments made on time and the account is current. Acceptable evidence includes the most recent payment reminder from the IRS, reflecting the last payment amount and date and the next payment amount owed and due date.
- The balance of the lien, or repayment plan, must be included when determining the maximum CLTV for the program.
- Refinance transactions require a subordination agreement from the taxing authority for liens against the subject property.

#### 5.10. Disputed Accounts

When the credit report contains tradelines disputed by the borrower, the credit file should be documented with a credit supplement showing the account(s) have been resolved.

#### 5.11. Bankruptcy History

Recent bankruptcies are **NOT** allowed. Evidence of bankruptcy resolution is required. The length of time is measured from the discharge/dismissal date to the Note date.

Length of Time	Result
>= 36 months	No reduction of the LTV
>= 24 months	Max LTV 75% - Purchase; Max LTV 75% - Rate Term and Cash-out Refinance

#### 5.12. Foreclosure Seasoning

The length of time is measured from the settlement date to the Note date. In the case of a foreclosure which was included in a bankruptcy, the seasoning timeline will start from the earlier of the date of discharge of bankruptcy and the foreclosure completion date.

Length of Time	Result
>= 36 months	No reduction of the LTV
>= 24 months	Max LTV 75% - Purchase; Max LTV 75% - Rate Term and Cash-out Refinance

#### 5.13. Short Sale / Deed-In-Lieu Seasoning

In the case of a short sale/deed-in-lieu which was included in a bankruptcy, the seasoning timeline will start from the earlier of the date of discharge of bankruptcy and the short sale/deed-in-lieu completion date.

Length of Time	Result
>= 36 months	No reduction of the LTV

>= 24 months	Max LTV 75% - Purchase; Max LTV 75% - Rate Term and Cash-out Refinance
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5.14. Forbearance, Modification and Deferrals

Forbearance, loan modifications, or deferrals are treated as a short sale / deed-in-lieu for eligibility and pricing purposes. Any loan payment history that appears to reflect the above may require additional documentation, such as canceled checks or bank statements to show payments were made.

Length of Time	Result
>= 36 months	No reduction of the LTV
>= 24 months	Max LTV 75% - Purchase; Max LTV 75% - Rate Term and Cash-out Refinance

## 6. Income Assessment

6.1. Debt Service Coverage Ratio – Investor Advantage

For Debt Service Coverage documentation, property income is used to qualify the transaction. Debt Service Coverage is available to experienced investors purchasing or refinancing investment properties for business purposes. The borrower is required to sign a Borrower Certification of Business Purpose and an Occupancy Certification.

6.1.1. Property Income Analysis

Gross rents are utilized in the DSCR Investor Advantage calculation. Gross rents are the lower of the actual rents from lease agreement(s) or long-term market rents from either FHLMC Form 1000 / FNMA Form 1007 or FHLMC Form 72 / FNMA Form 1025 in the case of a multi-family property. If the lease agreement reflects higher rents than the Form 1007, the lease amount may be used for gross rents if two (2) months’ proof of receipt is verified.

6.1.2. Debt Service Coverage Ratio

Debt Service Coverage Ratio is the Monthly Gross Income divided by the PITIA of the subject property. See the Program Matrix for required Debt Service Coverage Ratios (DSCR).

Example

**Single Family Purchase Money Transaction**

Monthly PITIA = \$650

Estimated Monthly Market Rent (FHLMC Form 1000 / FNMA Form 1007) = **\$850**

Existing Lease Monthly Rent = Not Available

Use Market Rent of \$850 (***Estimated Monthly Market Rent when a lease is not available for a purchase transaction.***)

Gross Rents (**\$850**) ÷ PITIA (**\$650**) = DSCR (**1.30**)

6.1.3. Gross Rent Documentation Requirements

#### 6.1.3.1. Purchase

- FHLMC Form 1000 / FNMA Form 1007, if applicable
- Existing lease agreement(s), if applicable.
- If the existing lease is being transferred to the borrower, it must be verified that it does not contain any provisions that could affect the first lien position of the subject property.

#### 6.1.3.2. Refinance

- FHLMC Form 1000 / FNMA Form 1007, if applicable
- If subject property leased on a short-term basis utilizing an on-line service such as Airbnb; gross monthly rents can be determined by using a 12-month look back period; and either 12-monthly statements, or an annual statement provided by the on-line service to document receipt of rental income. In addition, a screen shot of the online listing must show the property is activity marketed as a short-term rental. A 5% LTV reduction required when using short term rental income to qualify.
- If any unit is unleased or vacant, as reflected on the appraisal report, a 5% LTV reduction is required.

#### 6.1.4. Borrower Experience

##### 6.1.4.1. Experienced Investor

A borrower who has owned two (2) or more properties for at least 12 months (primary, investment, or commercial properties can be included) during the most recent thirty-six (36) month period. One (1) of the properties must be income producing, with the borrower having experience collecting rental income. The rental income can be documented with one of the following:

- Two (2) mortgage tradelines reported on the credit report or VOM, reflecting 0x30x12 history; or
- A copy of the most recent lease(s) with two (2) months' proof of receipt. Verification of the minimum number of properties for an experienced investor is required.

##### 6.1.4.2. First-Time Investor

A borrower that does not meet the Experienced Investor criteria. First Time Investors must have owned a property for twelve (12) months anytime during the past thirty-six (36) months. In addition, the following restrictions apply to First-time investors:

- Minimum credit score: 680
- Maximum LTV: 75%
- No mortgage late payments
- Minimum of 36-months seasoning from any credit event
- Cash-out transactions **NOT** eligible

#### 6.1.5. DSCR Investor Advantage Restrictions

- See the Program Matrix for the maximum LTV/CLTV.
- If the loan amount is < \$150,000 the minimum DSCR is 1.50.
- **DSCR < 1.00 requires an additional 6 months reserves on the subject property**
- Minimum credit score of 620.
- No rural properties.
- Maximum 2-acres.
- Gift funds permitted after a minimum 10% borrower contribution, documented per the Asset Documentation Section.
- Recent late payments on all consumer debt may not exceed 1X60 over the prior 12 months.

#### 6.1.6. Borrower Income

- No proof of borrower income is required.
- The employment section of the FHLMC Form 65 / FNMA Form 1003 loan application should be completed, including a valid phone number. No further verification is required.

#### 6.1.7. Default Event

If a loan payment is delinquent for 60 days, Best Capital Funding's loan servicer will enforce the following provision from the 1-4 Family Rider (Fannie Mae® Form 3170): Paragraph "G" - Assignment of Leases.

## 7. Liability Assessment

- 7.1. The DSCR Investor Advantage Program does not require the review of liabilities in the calculation of a Debt-to-Income Ratio, rather the loan is qualified on the DSCR as referenced in the Debt Service Coverage Ratio Section.

## 8. Asset Assessment

### 8.1. Asset Requirements

Acceptable asset documentation is required to be included in each loan file. The borrower must meet the minimum contribution amount per the program requirements. Assets should be liquid or able to be liquidated without restriction by the borrower. Asset documentation must comprise two consecutive months and be dated within 90 days of the Note Date.

### 8.2. Asset Documentation

The following may be used as asset documentation for down payment, closing costs, and reserves. See applicable Loan/LTV matrix for minimum reserve requirement.

- Account statements (e.g., checking, savings, share, or brokerage accounts)
  - Statements must include the following:
    - Name of financial institution
    - Reflect borrower as the account holder (Funds held jointly with a non-borrowing spouse are considered 100% of the borrower's funds)
    - Account number
    - Statement date
    - Time period covered by the statement
    - Available balance in U.S. dollar denomination
  - Assets held in foreign accounts must be translated to English and verified in US Dollar equivalency at the current exchange rate via either <http://www.xe.com> or the Wall Street Journal conversion table.
- Verification of Deposit completed by the verifying financial institution (Fannie Mae® Form 1006).

### 8.3. Large Deposits

Large deposits on any of the above asset documentation must be sourced. Large deposits are defined as any single deposit that represents more than 50% of the borrower's qualifying monthly income.

Atypical large deposits do NOT need to be sourced on the DSCR Investor Advantage Program.

### 8.4. Unacceptable Assets

The following assets are **NOT** acceptable:

- Non-vested or restricted stock accounts
- Cash-on-hand
- Sweat equity
- Gift or Grant funds which must be repaid
- Down payment assistance programs
- Unsecured loans or cash advances

### 8.5. Reserves

Refer to the Program Matrix for specific reserve requirements.

The following requirements apply to reserves:

- Net proceeds from a cash-out transaction maybe used to meet reserve requirements.
- Reserves for a loan with an Interest Only feature are based upon the Interest Only payment amount.
- Proceeds from a 1031 Exchange cannot be used to meet reserve requirements.

### 8.6. Gift Funds

For the DSCR Investor Advantage Program, a minimum of 10% of the down payment must be made by the borrower from their own funds.

#### 8.6.1. Eligible Donor

A gift can be provided by:

- a relative, defined as the borrower's spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship; or
- a fiancé, fiancée, or domestic partner.

The donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction.

#### 8.6.2. Gift Documentation Requirements

Gifts must be evidenced by a letter signed by the donor, called a gift letter. The gift letter must:

- specify the dollar amount of the gift;
- specify the date the funds were transferred;
- include the donor's statement that no repayment is expected; and
- indicate the donor's name, address, telephone number, and relationship to the borrower.

When a gift from a relative or domestic partner is being pooled with the borrower's funds to make up the required minimum cash down payment, the following items must also be included:

- A certification from the donor stating that he or she has lived with the borrower for the past 12 months and will continue to do so in the new residence.
- Documents that demonstrate a history of borrower and donor shared residency. The donor's address must be the same as the borrower's address. Examples include but are not limited to a copy of a driver's license, a bill, or a bank statement.

#### 8.6.3. Gift Donor Ability and Transfer of Funds

It must be verified that sufficient funds are to cover the gift are verified either in the donor's account or have been transferred to the borrower's account and reflected on the most recent bank statement. Acceptable documentation includes the following:

- a copy of the donor's check and the borrower's deposit slip,
- a copy of the donor's withdrawal slip and the borrower's deposit slip,
- a copy of the donor's check to the closing agent, or
- a settlement statement showing receipt of the donor's check.

When the funds are not transferred prior to settlement, the lender must document that the donor gave the closing agent the gift funds in the form of a certified check, a cashier's check, or other official check.

- Gift funds may **NOT** be used to meet reserve requirements.
- Gift of Equity **NOT** allowed for the DSCR Investor Advantage Program.



8.7. Subordinate Financing

**NOT** allowed on the DSCR Investor Advantage Program.

8.8. Interested Party Contributions

Occupancy	Percent of Purchase Price
Investment	3%

All Interested Party Contributions must be properly disclosed in the sales contract, appraisal, loan estimate and closing disclosure and be compliant with applicable federal, state and local law.

Interested party contributions include funds contributed by the property seller, builder, real estate agent/broker, mortgage lender, or their affiliates, or any other party with an interest in the real estate transaction.

Interested party contributions may only be used for closing costs and prepaid expenses (Financing Concessions) and may never be applied to any portion of the down payment or contributed to the borrower’s financial reserve requirements. If an Interested Party Contribution is present, both the appraised value and sales price must be reduced by the concession amount that exceeds the limits referenced above.

## 9. Property Assessment

9.1. Appraisal Requirements

Appraisers must meet all industry standards and be State Certified. State Licensed Appraisers and Trainees are not permitted. All real estate appraisals must be performed according to the Uniform Standards of Professional Appraisal Practice (USPAP) and FHLMC and FNMA guidelines, including Universal Appraisal Dataset (UAD) requirements. Appraisal assignments must be obtained in a manner that maintains appraiser independence and does not unduly influence the appraiser to meet a predetermined value.

The appraisal report must be reviewed for accuracy, completeness, and its assessment of the marketability of the subject property. For guidance in the manual review of an appraisal report, see the Appraisal Review Guide.

The age and price of the subject property should fall within the age and price range of properties in the subject neighborhood. Comparable properties should be selected from the same neighborhood when possible. Selection of a comparable outside the subject neighborhood should be addressed within the report. For condominiums, at least one comparable should be from outside the subject project. Ideally, comparable sales should be within six months of the report date. Older comparable sales that are the best indicator of value should be addressed in comments by the appraiser.

A Full Interior/Exterior appraisal report, including color photographs, requires use of one of the following forms depending on the property type:

Uniform Residential Appraisal Report – FNMA/FHLMC Forms 1004/70

Small Residential Income Property Report - FNMA/FHLMC Forms 1025/72

Individual Condominium Unit Appraisal Report - FNMA/FHLMC Forms 1073/465

Appraisal Update and/or Completion Report - FNMA/FHLMC Forms 1004D/442

Single Family Comparable Rent Schedule - FNMA/FHLMC Forms 1007/1000

When an appraisal report will be more than 120 days old on the date of the Note Date, regardless of whether the property was appraised as proposed or existing construction, the appraiser must inspect the exterior of the property and review current market data to determine whether the property has declined in value since the date of the original appraisal. This inspection and results of the analysis must be reported on the Appraisal Update and/or Completion Report (Form 1004D).

- If the appraiser indicates on the Form 1004D that the property value has declined, then the seller must obtain a new appraisal for the property.
- If the appraiser indicates on the Form 1004D that the property value has not declined, then the seller may proceed with the loan in process without requiring any additional fieldwork.

Properties for which the appraisal indicates condition ratings of **C5** or **C6**, or a quality rating of **Q6**, as determined under the Uniform Appraisal Dataset (UAD) guidelines. Best Capital Funding will originate loans if the issue has been corrected prior to loan funding and with proper documentation.

## 9.2. Appraisal Evaluation

### 9.2.1. Neighborhood Analysis

- Neighborhood boundaries should be described using the four (4) cardinal directions, streets, waterways, other geographic features and natural boundaries that define the separation of one neighborhood from another.
- Neighborhood characteristics should be described with types and sizes of structures, architectural styles, current land uses, site sizes, and street patterns or designs.
- Factors that affect value and marketability should be mentioned in as much detail as possible - e.g., proximity of the property to employment and amenities, public transit, employment stability, market history, and environmental considerations.

### 9.2.2. Existing Construction

- If the appraiser reports the existence of minor conditions or deferred maintenance items that do not affect the safety, soundness, or structural integrity of the property, the appraiser may complete the appraisal “as is.” These items must be reflected in the appraiser’s opinion of value.
- When there are incomplete items or conditions that do affect the safety, soundness, or structural integrity of the property, the property must be appraised subject to completion of the specific alterations or repairs. These items can include a partially completed addition or renovation, or physical deficiencies that could affect the safety, soundness, or structural integrity of the improvements, including but not limited to, cracks or settlement

in the foundation, water seepage, active roof leaks, curled or cupped roof shingles, or inadequate electrical service or plumbing fixtures. In such cases, a certificate of completion must be obtained from the appraiser before the loan closes.

#### 9.2.3. Subject Section

The appraiser is required to research and identify whether the subject property is currently for sale or if it has been offered for sale in the 12 months prior to the effective date of the appraisal. If the answer is 'No,' the data source(s) used must be provided. If the answer is 'Yes,' the appraiser must report on each occurrence or listing and provide the following information:

- Offering price(s)
- Offering date(s)
- Data source(s) used
- For example, if the subject property is currently listed for sale and was previously listed eight months ago, the appraiser must report both offerings.

#### 9.2.4. Actual and Effective Ages

There is no restriction on the actual age of the dwelling. Older dwellings that meet general requirements are acceptable. Improvements for all properties must be of the quality and condition that will be acceptable to typical purchasers in the subject neighborhood. The relationship between the actual and effective ages of the property is a good indication of its condition. A property that has been well-maintained generally will have an effective age somewhat lower than its actual age. On the other hand, a property that has an effective age higher than its actual age probably has not been well-maintained or might have a specific physical problem. In such cases, particular attention should be paid to the condition of the subject property in the review of the appraisal report. When the appraiser adjusts for the "Year Built," he or she must explain those adjustments.

#### 9.2.5. Accessory Units

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

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

- The property is defined as a one-unit property.
- There is only one accessory unit on the property; multiple accessory units are not permitted.
- The appraisal report demonstrates that the improvements are typical for the market through an analysis of at least one comparable property with the same use.

- The borrower qualifies for the mortgage without considering any rental income from the accessory unit.

#### 9.2.6. Outbuildings

Properties with outbuildings must be given special consideration in the appraisal report review to ensure that the property is residential in nature. Descriptions of the outbuildings should be reported in the Improvements and Sales Comparison Approach sections of the appraisal report form.

Type of Building	Suitability
Minimal outbuildings, such as small barns or stables, that have relatively insignificant value in relation to the total appraised value of the subject property	The appraiser must demonstrate, using comparable sales with similar amenities, that the improvements are typical of the residential properties in the subject area for which an active, viable residential market exists.
An atypical minimal building	The property is acceptable provided the appraiser's analysis reflects little or no contributory value for it.
Significant outbuildings, such as silos, large barns, storage areas, or facilities for farm-type animals	The presence of the outbuildings may indicate that the property is agricultural in nature. The Seller must determine whether the property is residential in nature, regardless of whether the appraiser assigns value to the outbuildings.

#### 9.2.7. Transfer of Appraisals

To transfer an appraisal, a transfer letter must be executed by the Lender that ordered the appraisal and must be signed by an authorized member of the company. Appraisal transfer letters signed by loan officers or loan processors will not be acceptable. The letter must include the following:

- Prepared on Letterhead of the original Lender
- Current Date
- Borrower Name
- Property Address
- Statement that the appraisal was prepared in compliance of Appraisal Independence Requirements
- Signed by an Authorized Representative

The following documents are required with a transfer:

- Executed Appraisal Transfer Letter
- First generation appraisal report
- Copy of the invoice submitted to the original lender

- Proof that the original report was provided to the borrower

### 9.3. Appraisal Review Requirements

An appraisal review product is required on every loan file unless a second appraisal is obtained. The appraisal review product should provide an “as is” value for the subject property (the “Appraisal Review Value”) as of the date of the subject loan transaction.

An enhanced desk review (Collateral Desktop Analysis) from Clear Capital is required on all loans unless a second appraisal is obtained. If a second appraisal is obtained, it may not be from the same appraiser or appraisal company as the original report. If a second appraisal is obtained, the lower of the two values is utilized.

If the enhanced desk review product (CDA) reflects a value more than 10% below the appraised value or cannot provide a validation, the next option would be a second appraisal. These must be from a different appraisal company and appraiser than the original appraisal.

#### 9.3.1. Minimum Property Requirements

Minimum Square Footage		
Single Family	Condominium	2-4 Units
700 square feet	500 square feet	400 square feet per individual unit

All properties must:

- Be improved real property.
- Be accessible and available for year-round residential use.
- Contain a full kitchen and a bathroom.
- Represent the highest and best use of the property.
- Not contain any health or safety issues.

#### 9.3.2. Personal Property

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

#### 9.3.3. Escrow Holdbacks

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

#### 9.3.4. Declining Markets

If the trend of property values is downward, a “Declining Market” exists. This requires a 5% LTV reduction from the regular LTV matrix for LTVs greater than 70%.

#### 9.4. Eligible Properties

- Single Family Detached
- Single Family Attached
- 2-4 Unit properties
- Condominium
- Modular homes
- Properties of 2 acres or less
- Leaseholds (in areas where leaseholds are common)

#### 9.5. Ineligible Properties

- Mixed Use properties
- Vacant land or land development properties
- Properties not readily accessible by roads that meet local standards
- Properties not suitable for year-round occupancy, regardless of location
- Agricultural properties (including farms, ranches, or orchards)
- Manufactured or Mobile homes
- Condo-hotels or co-op/timeshare hotels
- Projects that include registration services and offer rentals of units on a daily, weekly, or monthly basis
- Cooperative share loans
- Boarding houses or bed/breakfast properties
- Properties with zoning violations
- Dome or geodesic homes
- Assisted living facilities
- Homes on Native American Land (Reservations)
- Log homes
- Hawaii properties located in lava zones 1 and/or 2
- Houseboats
- Fractional ownership
- Properties used for the cultivation, distribution, manufacture or sale of marijuana
- Rural property:
  - A property is classified as rural if:
    - The appraiser indicates in the neighborhood section of the report a rural location; or
    - Any two (2) of the following conditions exist:
      - The property is located on a gravel road.
      - Two of the three comparable properties are more than 5 miles from the subject property.

#### 9.6. Acreage Limitations

- A maximum of 2 acres
- No truncating allowed

## 9.7. State Eligibility

### 9.7.1. Texas Home Equity Loans 50(a)(6)

A Texas Section 50(a)(6) mortgage is a home equity loan originated under the provisions of Article XVI, Section 50(a)(6), of the Texas Constitution, which allow a borrower to take equity out of a homestead property under certain conditions. All loans must comply with the requirements listed in the Texas Constitution.

### 9.7.2. Consolidation, Extension, and Modification Agreement (CEMA)

**NOT** allowed on the DSCR Investor Advantage Program.

## 9.8. Rural Properties

A rural property is classified as rural if:

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

Properties classified as rural and **NOT** eligible for the DSCR Investor Advantage Program.

## 9.9. Private Roads

If the property is located on a community-owned or privately-owned and maintained street, an adequate, legally enforceable agreement or covenant for maintenance of the street is required. The agreement or covenant should include the following provisions and be recorded in the land records of the appropriate jurisdiction:

- responsibility for payment of repairs, including each party's representative share;
- default remedies in the event a party to the agreement or covenant fails to comply with his or her obligations; and
- the effective term of the agreement or covenant, which in most cases should be perpetual and binding on any future owners.

## 9.10. Leasehold Properties

In areas where leasehold estates are commonly accepted and documented via the appraisal, loans secured by leasehold estates are eligible. The mortgage must be secured by the property improvements and the borrower's leasehold interest in the land. The leasehold estate and any improvements must constitute real property, be subject to the mortgage lien, and be insured by the Seller's title policy.

Documentation must be provided that the leasehold meets all FHLMC / FNMA eligibility requirements (i.e., term of lease).

#### 9.11. Age of Appraisal

The appraisal must be dated within 360 days of the Note date. Recertification of value required if the report will exceed 120 days of the Note Date.

#### 9.12. Properties located in a Declared Disaster Area

Appropriate steps must be taken for properties identified as possibly being affected by disasters and taking appropriate steps to ensure the subject property has not been adversely affected. The following guidelines apply to properties located in FEMA declared disaster areas, as identified by reviewing the FEMA website at [www.fema.gov/disasters](http://www.fema.gov/disasters). In addition, when there is knowledge of an adverse event occurring near and around the subject property location, such as earthquakes, floods, tornadoes, or wildfires, additional due diligence must be used to determine if the disaster guidelines should be followed.

##### 9.12.1. Appraisals Completed Prior to a Declared Disaster

An interior and exterior inspection of the subject property, performed by the original appraiser if possible, is required.

- The appraiser should provide a statement indicating if the subject property is free from any damage, is in the same condition from the previous inspection, and the marketability and value remain the same.
- An Inspection Report must include new photographs of the subject property and street view.
- Any damage must be repaired and re-inspected prior to purchase.

##### 9.12.2. Appraisals Completed After a Declared Disaster

- The appraiser must comment on the adverse event and certify that there has been no change in the valuation.
- Any existing damage noted in the original report must be repaired and re-inspected prior to the closing of the loan.

The guidelines for disaster areas should be followed for 120 days from the disaster declaration date as published by FEMA.

#### 9.13. Condominiums

A condominium project is one in which individual owners hold title to units in the project along with an undivided interest in the real estate that is designated as the common area for the project. The units in the project must be owned in fee simple and the unit owners must have the sole ownership interest in and rights to the use of, the project's facilities, common elements, and limited common elements.



To qualify as an acceptable condominium unit, the condominium project must be common for the area and demonstrate good marketability.

- All Loan secured by condominium projects require a completed Homeowners Association (HOA) questionnaire.
- See the current Loan/LTV matrix for maximum LTV/CLTVs and loan amounts.
- Maximum project exposure shall be \$5,000,000 or 20% of the total units in the project, whichever is lower.
- Projects consisting entirely of detached (site) units will not require a project review and are eligible for single-family dwelling LTV/CLTV.
- Two- to four-unit condominium projects will not require a project review provided the following are met:
  - The project is not a condo hotel, houseboat, or timeshare or segmented-ownership project.
  - The priority of common expense assessments applies.
  - The standard insurance requirements apply.
- Project has been created and exists in full compliance with applicable local jurisdiction, State, and all other applicable laws and regulations.
- Commercial space allowed up to 50% of project.
- No more than 20% of the total units in the project may be 60 days or more past due on the condominium/HOA fees.
- Investor concentration allowed up to 60%. A higher percentage may be considered when the subject transaction is an investment property when a history of a high percentage of rental units in the project can be demonstrated.
- The project developer may be in control of the condominium association provided the Master Agreement allows for the homeowners to take control upon either a predetermined percentage of unit sales or within a defined time frame.
- Single entity ownership allowed up to 20% of the project.
- Projects involved in litigation are acceptable provided the lawsuit(s) are not structural in nature which impact the subject unit and do not affect the marketability of the project units and potential damages do not exceed 25% of HOA reserves or documentation from the insurance carrier or attorney representing the insurance carrier that the insurance carrier has agreed to conduct defense and the HOA insurance policy is sufficient to cover the litigation expense.
- Borrower must carry HO-6 coverage for replacement of such items as flooring, wall covering, cabinets, fixtures, built-ins, and any improvements made to the unit.
- If must be documented that the project documents do not give a unit owner or any other party priority over the rights of the first mortgagee.

#### 9.13.1. Established Projects

- 90% of the total units in the project must be sold and conveyed to the unit owners.
- 40% of the total units in the project must be owner occupied.
- All phases are complete.
- HOA must be conveyed to the unit owners – no developer or builder-controlled projects allowed.

- All comparable sales may be from within the subject’s project if the project is established and consists of 100 or more units. Recent sales of model match units, if available, must be utilized in the appraisal report.

#### 9.13.2. New Projects

- 60% of the total units in the project or subject’s phase must be sold and conveyed to the unit owners AND at least 60% of the units must be owner occupied.
- New Projects: project or subject’s legal phase along with other development phases must be complete. All common elements in the project or legal phase must be 100% complete. At least 50% of project must be sold or under legal contract.
- Project may be subject to additional phasing.
- HOA should be in control – project under Developer or Builder control will be considered on a case-by-case basis only.

#### 9.13.3. Ineligible Projects

- A project subject to the rules and regulations of the US Securities and Exchange Commission.
- Condominium Hotel – Condotel
  - A condominium project in which any unit owner or the homeowners’ association is a party to a revenue-sharing agreement with either the developer or another third-party entity.
  - A condominium project where the unit is not the lessee’s residence.
  - Projects that are managed and operated as a hotel or motel, even though the units are individually owned.
  - Projects with names that include the words “hotel,” “motel,” “resort,” or “lodge.”
  - A project that includes registration services and offers rentals of units on a daily, weekly, or monthly basis.
  - Hotel or motel conversions (or conversions of other similar transient properties.)
  - has obtained a hotel or resort rating for its hotel, motel, or resort operations through hotel ratings providers including, but not limited to, travel agencies, hotel booking websites, and internet search engines.
- Timeshare or projects that restrict the owner’s ability to occupy the unit.
- Houseboat project.
- Manufactured home projects.
- Assisted living facilities or any project where the unit owner’s contract includes a lifetime commitment from the facility to care for the unit owner regardless of future health or housing needs.
- Multi-family units where a single deed conveys ownership of more than one, or all of the units.
- A common-interest apartment
  - A project in which individuals have an undivided interest in a residential apartment building and land and have the right of exclusive occupancy of a specific apartment unit in the building.

- The project or building is often owned by several owners as tenants-in-common or by a homeowners' association.
- Fragmented or segmented ownership
  - Ownership is limited to a specific period on a recurring basis (i.e., timeshare, quarter share).
- Any project where the developer (or its affiliates) owns the Common and/or Limited Elements and leases the elements back to the HOA.
- Any project that has non-conforming zoning (can't be rebuilt to current density).
- Any project that requires Private Transfer Fees as a part of the transaction, and those fees do not benefit the association.

#### 9.13.4. Condominium Insurance Requirements

The condominium association must maintain a master of blanket type of insurance policy, with premiums that are paid as a common expense. The policy must cover all general and limited common elements normally included, such as fixtures, building service equipment, and common personal property and supplies belonging to the homeowners' association. Insurance must cover 100% of the current replacement cost of the project improvements including the individual unit in a condominium project. Coverage does not need to include land, foundations, excavations or other items that are usually excluded from insurance coverage.

##### 9.13.4.1. Liability Insurance for Condominiums

The homeowner's association must maintain a commercial general liability insurance policy for the entire project. The commercial general liability insurance policy must provide coverage for bodily injury and property damage that result from the operation, maintenance, or use of the project's common areas and elements. Liability coverage must be at least \$1 million per occurrence for personal injury and/or property damage and the coverage must provide for claim settlement on an occurrence basis.

##### 9.13.4.2. Fidelity of Employee Dishonesty Insurance for Condominiums

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

##### 9.13.4.3. HO-6

If the master or blanket policy does not provide interior unit coverage (replacement of improvements and betterment coverage to cover any improvements that the borrower may have made) the borrower must obtain an HO-6 Policy or "walls-in" coverage. The HO-6 insurance policy must provide coverage in an amount as established by the HO-6 insurer.

##### 9.13.4.4. Deductible

The maximum deductible amount must be no greater than 5% of the face amount of the policy.

#### 9.13.4.5. Flood Insurance for Condominiums

- The condominium homeowners' owners must obtain an NFIP Residential Condominium Building Association Policy (RCBAP) with the following coverage:
  - Building Coverage must equal the lesser of:
    - 100% of the insurable value (replacement cost) of the building, including amounts to repair or replace the foundation and its supporting structure); or
    - The total number of units in the condominium building times \$250,000
  - Contents Coverage must equal the lesser of:
    - 100% of the insurable value of all contents (including machinery and equipment that are not part of the building) that are owned in common by the association members; or
    - The maximum amount of contents coverage sold by the NFIP for a condominium building

#### 9.14. Property Flipping

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

- The price in the borrower's purchase agreement exceeds the property Seller's acquisition price by more than 10% if the property Seller acquired the property 90 or fewer days prior to the date of the borrower's purchase agreement.
- The price in the borrower's purchase agreement exceeds the property Seller's acquisition price by more than 20% if the property Seller acquired the property 91-180 days prior to the date of the borrower's purchase agreement.

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

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

## 10. Loan Purpose

### 10.1. Purchase

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

## 10.2. Rate Term Refinance

Proceeds from the transaction are used to:

- Pay off an existing first mortgage loan and any subordinate loan used to acquire the property.
- Pay off any subordinate loan not used in the acquisition of the subject property, provided one of the following apply:
  - Closed-end loan, at least 12 months of seasoning has occurred.
  - HELOC, at least 12 months of seasoning has occurred, and total draws over the past 12 months are less than \$2,000. **(For business purpose transactions, any draw over the life of the loan may not have been used for personal use. Business purpose transactions will require a draw history schedule, along with an attestation from the borrower, in the credit file, that none of the advances were used for personal/consumer use).**
- Buy out a co-owner pursuant to an agreement.
- Pay off an installment land contract executed more than 12 months from the loan application date.

Other considerations:

- Cash back in an amount not to exceed the lesser of 2% of the new loan amount or \$5,000 can be included in the transaction.
- LTV/CLTV is based upon the appraised value.
- Refinance of a previous loan that provided cash out, as measured from the previous note date to the application date, and is seasoned less than 12 months, will be considered a cash out refinance.

## 10.3. Cash-out Refinance

- A refinance that does not meet the definition of a rate/term transaction is considered cash-out.
- See Loan/LTV Matrices for maximum cash-out amounts and restrictions.
- A mortgage secured by a property currently owned free and clear is considered cash-out.
- The payoff of delinquent real estate taxes (60 days or more past due) is considered cash-out.
- Cash-out eligible to satisfy the reserve requirements .
- A letter explaining the use of loan proceeds is required for all transactions.
  - For all investment property transactions, any loan proceeds used to pay off personal debt creates a consumer transaction, and the loan is subject to ATR and TRID. This includes any past draws, regardless of timing, on a HELOC secured by the subject property. Business purpose transactions will require a draw history schedule, along with an attestation from the borrower, in the credit file, that none of the advances were used for personal/consumer use).
- Loans not eligible for cash-out:

- Investment properties listed for sale in the past six (6) months, unless a three (3) year prepay penalty, per requirements in the Prepayment Penalty section are met.
- There has been a prior cash-out within the past six (6) months.
- Land Contract/Contract for Deed.
- Cash-Out Seasoning is defined as the time difference between application date of the new loan and the property acquisition date.
  - For properties owned 12 months or longer, the LTV/CLV is based upon the appraised value.
  - If the cash-out seasoning is less than 12 months, but greater than 6 months, the transaction property value is limited to the lower of the current appraised value or the property's purchase price plus documented improvements.
  - Cash-out seasoning of less than six (6) months is not allowed when the prior transaction was also a cash-out.
  - Cash-out seasoning of six (6) months or less is allowed with the following restriction:
    - The Seller has documented that the borrower acquired the property through an inheritance, or was legally awarded the property through divorce, separation, or dissolution of a domestic partnership.

#### 10.3.1. Delayed Financing

- Delayed purchase financing is eligible when a property was purchased by a borrower for cash within 180 days of the loan application.
  - The original purchase transaction was an arms-length transaction.
  - The source of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property).
  - The maximum LTV/CLTV ratio for the transaction is based upon the lower of the current appraised value or the property's purchase price plus documented improvements.
  - The preliminary title search or report must confirm that there are no existing liens on the subject property
  - The transaction is considered cash-out, cash-out Loan/LTV limits apply.

#### 10.4. Listing Seasoning

For all cash-out refinances, properties previously listed for sale must be seasoned at least six months from the listing contract expiration date to the loan application date. For investment properties, a listing expiration of less than six months is permitted with a prepayment penalty.

## 11. Insurance

### 11.1. Property Insurance

#### 11.1.1. Coverage Requirements

Property insurance for loans must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. The coverage must provide for claims to be settled on a replacement cost basis. Extended coverage must include, at a minimum: wind, civil commotion (including riots), smoke, hail, and damage caused by aircraft, vehicle, or explosion.

Policies that limit or exclude from coverage (in whole or in part) windstorm, hurricane, hail damage, or any other perils that normally are included under an extended coverage endorsement are not acceptable. Borrowers may not obtain property insurance policies that include such limitations or exclusions unless they are able to obtain a separate policy or endorsement from another commercial insurer that provides adequate coverage for the limited or excluded peril, or from an insurance pool that the state has established to cover the limitations or exclusions.

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

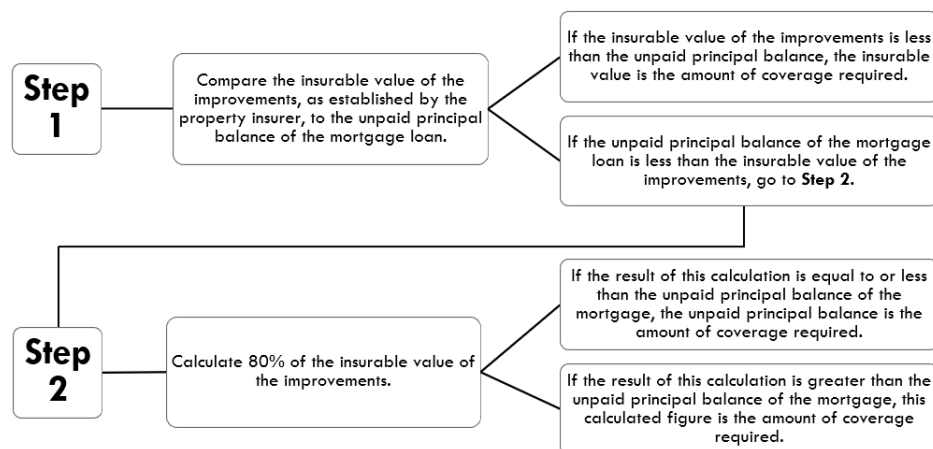
The insurance coverage should reflect one of the following:

- 100% of the insurable value of the improvements, as established by the property insurer
  - Provide explicit evidence of guaranteed replacement cost coverage, or
  - Provide a replacement cost estimator to evidence adequate dwelling coverage
- the unpaid principal balance of the mortgage if it's at least 80% of the insurable value of the improvements on a replacement cost basis.

If it does not, then coverage that does provide the minimum required amount must be obtained.

### 11.1.2. Amount of coverage required

The following describes how to calculate the amount of required property insurance



Some examples:

Category	Property A	Property B	Property C
Insurable Value	\$90,000	\$100,000	\$100,000
Unpaid Principal Balance	\$95,000	\$ 90,000	\$ 75,000
80% Insurable Value	—	\$ 80,000	\$ 80,000
Required Coverage	\$90,000	\$ 90,000	\$ 80,000
Calculation Method	Step 1A	Step 2A	Step 2B

## 11.2. Flood Insurance

The property securing the mortgage loan must be adequately protected by flood insurance when required. Flood insurance coverage is required when a mortgage loan is secured by a property located in

- a Special Flood Hazard Area (SFHA), or
- a Coastal Barrier Resources System (CBRS) or Otherwise Protected Area (OPA). (See below for additional information.)

It must be determined whether or not the property is located in an SFHA by using the Standard Flood Hazard Determination form endorsed by FEMA. All flood zones beginning with the letter “A” or “V” are considered SFHAs.

The following table describes how to evaluate a property to determine if flood insurance is required. For the purpose of these requirements, the “principal structure” is the primary residential structure on the property securing the mortgage loan.

For additional requirements for Condominiums see Section Flood Insurance for Condominiums

If...	The flood insurance is...
any part of the principal structure is located in an SFHA,	Required
the principal structure is not located in an SFHA, but a residential detached structure attached to the land that serves as part of the security for the mortgage loan is located within the SFHA	Required for the residential detached structure
the principal structure is not located in an SFHA, but a non-residential detached structure attached to the land that serves as part of the security for the mortgage loan is located within the SFHA	Not required on either structure
the principal structure is not located in an SFHA, but a detached structure attached to the land that does not serve as part of the security for the mortgage loan is located within the SFHA	Not required on either structure



#### 11.2.1. Acceptable flood insurance Policies

The flood insurance policy must be one of the following:

- a standard policy issued under the NFIP; or
- a policy issued by a private insurer as long as the terms and amount of coverage are at least equal to that provided under an NFIP policy based on a review of the full policy issued by a private insurer.

## 12. Title

### 12.1. Title Policy

#### 12.1.1. Terms of coverage

The title insurance policy must ensure the title is acceptable and that the mortgage represents a first lien on a fee simple estate in the property. The title policy must also list all other liens and reflect they are subordinate. The policy must be written on one of the following forms:

- The 2006 American Land Title Association (ALTA) standard form.
- An ALTA short form if it provides coverage equivalent to the 2006 ALTA standard form.
- In states in which standard ATLA forms of coverage are, by law or regulation, not used, the state-promulgated standard or short form which provides the same coverage as the equivalent ALTA form.
- For Adjustable-Rate Mortgages, the policy must include ALTA Endorsement 6-06.

#### 12.1.2. Effective date of coverage

The effective date of the title insurance coverage written on forms that do not provide the gap coverage included in the 2006 ALTA policies may be no earlier than the later of the date of the final disbursement of loan proceeds or the date the mortgage was recorded.

Because the 2006 ALTA forms provide protection for the time between loan closing and recordation of the mortgage, policies written on those forms may be effective as of loan closing.

#### 12.1.3. Amount of coverage

The amount of title insurance coverage must at least equal the original principal amount of the mortgage.

#### 12.1.4. Mortgage Electronic Registration System (MERS)

If a mortgage is registered with MERS and is originated naming MERS as the original mortgagee of record, solely as nominee for Best Capital Funding named in the security instrument and the Best Capital Funding's successors and assigns, then the "insured mortgage" covered by the title insurance policy must be identified in the title insurance policy as the security instrument given to MERS, solely as nominee for the Seller and Seller's successors and assigns. However, under no circumstances may MERS be named as the insured of a title policy.

#### 12.1.5. Other requirements

The title insurance coverage must include an environmental protection lien endorsement (ALTA Endorsement 8.1-06 or equivalent state form providing the required coverage).

References are to the ALTA 2006 form of endorsement, but state forms may be used in states in which standard ALTA forms of coverage are, by law or regulation, not used, provided that those endorsements do not materially impair the protection to Best Capital Funding. As an alternative to endorsements, the requisite protections may be incorporated into the policy.

Title policies may not include the creditors' rights exclusion language that ALTA adopted in 1990.

#### 12.1.6. Chain of title

All files must contain a 24-month title history. Transfer date, price, and buyer and Seller names should be provided for any transfers that occurred within the past 24 months.

#### 12.1.7. Condominium of Planned Unit Developments (PUD)

The title insurance policy for a condominium or PUD unit mortgage must describe all components of the unit estate.

For condominium unit mortgages, an ALTA 4-06 or 4.1-06 endorsement or its equivalent is required. For PUD unit mortgages, an ALTA 5-06 or 5.1-06 endorsement or its equivalent is required. These endorsements must be attached to each policy or incorporated into the text of the policy.

If the unit owners own the common areas of the project as tenants in common, the policy for each unit's mortgage must reflect that ownership.

If the homeowners' association (HOA) owns the common elements, areas, or facilities of the project separately, the title insurance on those areas must insure that ownership.

This title policy must show that title to the common elements, areas, or facilities is free and clear of any objectionable liens and encumbrances, including any statutory or mechanic's liens for labor or materials related to improvements on the common areas that began before the title policy was issued.

The title policy must protect Best Capital Funding by insuring:

- that the mortgage is superior to any lien for unpaid common expense assessments. (In jurisdictions that give these assessments a limited priority over a first mortgage lien, the policy must provide assurance that those assessments have been paid through the effective date of the policy.)
- against any impairment or loss of title of the first lien caused by any past, present, or future violations of any covenants, conditions, or restrictions of the master deed for the

project. (It must specifically insure against any loss that results from a violation that existed as of the date of the policy.)

- that the unit does not encroach on another unit or on any of the common elements, areas, or facilities. (The policy also must insure that there is no encroachment on the unit by another unit or by any of the common elements, areas, or facilities.)
- that the mortgage loan is secured by a unit in a condominium project that has been created in compliance with the applicable enabling statutes.
- that real estate taxes are assessable and lienable only against the individual condominium unit and its undivided interest in the common elements, rather than against the project as a whole.
- that the owner of a PUD unit is a member of the homeowners' association, and that the membership is transferable if the unit is sold.

#### 12.1.8. Title exceptions

Best Capital Funding will not originate a mortgage secured by property that has an unacceptable title impediment, particularly unpaid real estate taxes and survey exceptions.

If surveys are not commonly required in particular jurisdictions, the Seller must provide an ALTA 9 Endorsement. If it is not customary in a particular area to supply either the survey or an endorsement, the title policy must not have a survey exception.

#### 12.1.9. Minor impediments to title

Title for a property that secures a conventional mortgage is acceptable even though it may be subject to the following conditions, which Best Capital Funding considers minor impediments:

- Customary public utility subsurface easements that were in place and completely covered when the mortgage was originated, as long as they do not extend under any buildings or other improvements.
- Above-surface public utility easements that extend along one or more of the property lines for distribution purposes or along the rear property line for drainage purposes, as long as they do not extend more than 12 feet from the property lines and do not interfere with any of the buildings or improvements or with the use of the property itself.

#### 12.2. Title Vesting and Ownership

Ownership must be a fee simple title.

Eligible forms of vesting are:

- Individuals
- Joint Tenants
- Tenants in common
- Inter vivos revocable trust

Ineligible forms of vesting are:

- Land trusts

- Blind trusts
- IRAs
- Entity (Corporation, S-Corp, LLC, Partnership)

## 13. Mortgage Document Requirements

### 13.1. Signed Form 4506-C Required

A signed 4506-C is **NOT** required on the DSCR Investor Advantage Program.

### 13.2. IRS Tax Transcripts

Tax transcripts are **NOT** required on the DSCR Investor Advantage Program.

### 13.3. Power of Attorney Requirements

A limited Power of Attorney is acceptable when all the following are met:

- It is specific to the transaction;
- It is recorded with the Mortgage/Deed of Trust;
- It contains an expiration date;
- It is used to execute **ONLY** the final loan documents; and
- The Borrower who executed the POA signed the initial 1003, and
- An interested party to the transaction (such as seller, broker, loan officer, realtor, etc.) may not act as Power of Attorney.
- **NOT** eligible for cash-out transactions

## 14. Exhibits

## DSCR Investor Advantage Occupancy Certification

Borrower				
Co-Borrower				
Co-Borrower				
Co-Borrower				
Property Address				
City		State		Zip

I/We the undersigned certify that:

\_\_\_\_\_ Primary Residence – I/we will occupy the Property as my/our principal residence within Sixty (60) days after the date of closing as stated in the Mortgage or Deed of Trust I/we executed. I/we will continue to occupy the Property as my/our principal residence for at least one year after the date of occupancy, unless Seller otherwise agrees in writing.

\_\_\_\_\_ Second Home – I/we will occupy the Property as a second home (vacation, etc.) while maintaining a principal residence elsewhere.

\_\_\_\_\_ Investment Property – I/we will not occupy the Property as a principal resident or second home. I/we will not occupy the Property for more than 14 days in any calendar year. The Property is an investment to be held or rented rather than for household or personal use.

**INVESTMENT PROPERTY ONLY** (the following **must** be completed on an investment property loan)

\_\_\_\_\_ I/we understand that consumer protection laws applicable to consumer loans will not apply to this loan, including the Truth in Lending Act (15 U.S.C. § 1601 *et seq.*), Real Estate Settlement Procedures Act (12 U.S.C. § 2601 *et seq.*), Gramm-Leach Bliley Act (15 U.S.C. §§ 6802-6809), Secure and Fair Enforcement Mortgage Licensing Act (12 U.S.C. § 5101 *et seq.*), and Homeowners Protection Act (12 U.S.C. § 4901 *et seq.*).

**REFINANCE ONLY** (the following **must** be completed on a refinance transaction)

\_\_\_\_\_ I/We the undersigned, certify that the property referenced above is **NOT** currently listed for sale or under contract to be listed for sale.

**I/We understand that it is illegal to provide false information in an application for a mortgage loan. Mortgage fraud is punishable by up to thirty (30) years in federal prison or a fine of up to \$1,000,000, or both under the provisions of Title 18, United States Code, Sec. 1001, et seq.**

I/We understand that failure to comply with the requirements in the Mortgage or Deed of Trust regarding occupancy of the property will entitle the Seller to exercise its remedies for breach of covenant under the Mortgage or Deed of Trust. Such remedies include, without limitation, requiring immediate payment in full of the remaining indebtedness under the Loan together with all other sums secured by the Mortgage or Deed of Trust, and exercise of power of sale or other applicable foreclosure remedies, to the extent permitted by the Mortgage or Deed of Trust.

Borrower	Date	Co-Borrower	Date
Co-Borrower	Date	Co-Borrower	Date

## DSCR Investor Advantage Borrower Certification of Business Purpose

Borrower				
Co-Borrower				
Co-Borrower				
Co-Borrower				
Property Address				
City		State		Zip

This BORROWER CERTIFICATION OF BUSINESS PURPOSE LOAN is being executed and made effective as of **[LOAN CLOSING DATE]**. The undersigned borrower(s) and, if applicable, guarantor (collectively the “Borrower”) certifies and represents to Best Capital Funding (“Seller”) all of the following:

1. Borrower has requested that Seller make a loan in the original principal amount of **[LOAN AMOUNT]** (“Loan”), which is evidenced by that certain Promissory Note of even date herewith made in favor and payable to the order of Seller, which is secured by that certain Mortgage, Deed of Trust or Security Deed (“Security Instrument”) of even date herewith encumbering all that certain real property referenced in the Security Instrument and commonly known as **[PROPERTY ADDRESS]** (“Property”).
2. Borrower has previously represented to Seller that the purpose of the Loan is solely for business or commercial purposes and not for any personal, family, or household purposes.
3. As previously represented, all proceeds from the Loan are to be used solely for business or commercial purposes and not for any personal, family, or household purposes.
4. The Property is not the principal or secondary residence of (i) the Borrower (including, for avoidance of doubt, any guarantors), or (ii) if the Borrower is not a natural person, any person who has a direct or indirect ownership interest in the Borrower.
5. Certain consumer protection laws, including the Truth in Lending Act (15 U.S.C. § 1601 et seq.), Real Estate Settlement Procedures Act (12 U.S.C. § 2601 et seq.), Gramm-Leach Bliley Act (15 U.S.C. §§ 6802-6809), Secure and Fair Enforcement Mortgage Licensing Act (12 U.S.C. § 5601 et seq.) and Homeowners Protection Act (12 U.S.C. § 4901 et seq.), do not apply to the origination of the Loan.
6. The Borrower has read and understands the contents of this Borrower Certification of Business Purpose.

IN WITNESS WHEREOF, this Certification has been duly executed by the Borrower as of the date first above written.

Borrower(s):

Signature	Date
Borrower	

Signature	Date
Co-Borrower	

Signature	Date
Co-Borrower	

Signature	Date
Co-Borrower	

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Version Number	Purpose / Change	Author	Date
0.1	Initial Draft	Brett Shirley	8.10.2021
1.0	Final Version	Brett Shirley	8.25.2021
1.1	Removed 5.4.1. Borrower's Living Rent-Free	Brett Shirley	9.3.2021
2.0	Adding the requirement for a Clear Capital CDA	Brett Shirley	9.17.2021
2.1	Removing the ability to close in the name of an entity	Brett Shirley	9.21.21