CHAMPIONS

FUNDING

ITIN Activator

Consumer - Alt Doc

Underwriting Guidelines

CHAMPIONS FUNDING

Non-Delegated ITIN - ACTIVATOR

Occupancy: Primary Residence | Second Home		
Purchase & Rate & Term		
FICO	**Loan Amount**	**Max LTV/CLTV**
700	$1,000,000	*85%
660	$1,000,000	70%
660	$750,000	80%
*Max LTV/CLTV 80% but LTV can go to 85% **if transaction is a Purchase or Rate & Term with min. FICO 700, max. DTI 45%, min. residual income $5,000, min. tradelines 3x12 or 2x24 months, primary homes only, and employment must be two years uninterrupted.**		
Cash Out		
FICO	**Loan Amount**	**Max LTV/CLTV**
700	$1,000,000	75%
660	$1,000,000	70%
660	$750,000	75%
Qualifying FICO is primary wage earner's mid-score.		

Property Type Requirements	
Property Type	**Max LTV**
2 Units	80%
Warrantable Condo	80%
Attached PUD	80%
10+ Acres	80%
3-4 Units	75%
Rural	75%
Log Homes	Ineligible

Max DTI
Standard: 50% **Asset Qualifier:** 43%

Additional Requirements	
Appraisal	Properties with condition rating of 5 or 6 are not acceptable. C4 condition rating requires additional review. Desk
Assets	Sourced and Seasoned for 60 days.
Cash-In-Hand	LTV < 65%: $500,000 LTV ≥ 65%: $250,000 Owned Free and Clear: $175,000 Max cash-in-hand refers only to cash back at closing and does not include any debts paid at closing.
Borrower Identification	ITIN is required to be assigned prior to application. Verification of unexpired ITIN is supported by IRS form CP565 (both pages) from the IRS. If the ITIN is expired, borrower's most recent filed tax returns must be validated with the IRS tax transcripts. *Borrower with an EAD card and social security number is eligible with the following EAD codes: A05, A10, A12, C08, C09, C31, IR1, CR1, K1.
Compliance	See guidelines for escrow requirements. Compliance with all applicable Federal and State regulations. No Section 32 or State High Cost.
Credit Events	**Foreclosure | Bankruptcy |Deed In Lieu | Short Sale | Non-Covid related Mod:** 36 months seasoning (3 years)
Forbearance	If the borrower has resolved missed payments through a loss mitigation solution, they are eligible for a new mortgage loan if they have at least three (3) timely payments. FNMA requirements in regards to forbearance reinstatement apply.
Gift Funds	Gift funds are allowed with a 5% contribution from borrower's own funds. Gift funds cannot be used for reserves. Gift funds may not be used by a FTHB under the WVOE program and may not be used when using Asset Qualifier as income.
Housing History	Housing history to be documented for the last 12 months. VOR 0x30x12. Private VOR's are acceptable with property profile confirming landlord on VOR is owner of property. Maximum 1x30x12 for all mortgages.
Loan Amounts	Minimum: $100,000 Maximum: $1,000,000
Minimum Tradelines	**Standard Tradelines:** 1x24 months with activity in the most recent 12 months OR 2x12 months with activity in the most recent 12 months **If min tradeline requirement not met: Min FICO:** 660 **Max LTV:** 75% **Max Ln Amt:** $750,000 **Alternative Credit:** 1 alternative tradeline may be used to qualify (VOR is not considered an Alt Trade) see guidelines for full requirements. Alternative tradelines include utility bills paid monthly such as gas, electric, water, cell phone, or internet. We will not accept monthly subscriptions such as Netflix or Spotify. Bills must be paid monthly. **1 FICO Score: Min FICO:** 700 **MAX LTV:** 75% **Max Ln Amt:** $750k **(Other Bureaus may not be frozen)**
Occupancy	Primary Residence | Second Home
Product Types	30 Year Fixed |15 Year Fixed
Property Types	**Eligible Properties:** SFR, PUD (detached or attached), Warrantable Condominium, 2-4 Unit, Modular, Rural
Qualifying Payment	Fixed = Note Rate
Reserves	Reserve requirements: **LTV ≤ 80%:** 3 months **LTV > 80%:** FICO 700+: 12 months FICO 720+: 9 months FICO 740+: 6 months FICO 760+: 3 months **Second homes** require 2 months' additional reserves based on the subject property's PITIA unless the subject property itself requires a minimum of 12 months reserves. Total reserve requirement not to exceed 12 months subject property PITIA.
Seller Concessions	Maximum 6%
Subordinate Financing	Max 80% CLTV. Secondary financing must be institutional. Seller Carrybacks not permitted.
State Restrictions	Iowa: Min Loan Amt $125,000 North Carolina: Min Loan Amt $300,000

Income Requirements	
Residual Income Requirements	
Residual income is calculated taking total qualifying income minus total monthly debt. **Minimum Residual Income is $2,500** •Add $250 for first dependent •Add $125 for each additional dependent **Example:** A borrower is married with 3 children: $2,500 + $250 +$125 * 3 = $3,125 residual income requirement.	
Wage Earner	
W2	2 years W2s and 2 months bank statements reflecting direct deposits OR paystub reflecting YTD income.
WVOE	FNMA 1005, two (2) most recent months of personal bank statements reflecting deposit(s) from employer on each statemen OR 2 most recent paystubs. *Not allowed on second homes
Self-Employed	
12 Month Personal or Business Bank Statements	Income calculated based on 12 months recent Business bank statements. Refer to program guidelines for calculation methods available. Bank statements should show a stable or increasing trend. If the trend is declining and/or irregular, additional documentation may be required up to and including additional 12 months statements. 24 months may be required based on deposit history.
P&L	12 months CPA |IRS Enrolled Agent |Certified Tax Preparer-Profit and Loss. See guidelines for P&L requirements.
1 Year Tax Return	Most recent year tax return filed to be utilized for income qualifying per FNMA guidelines.
1099	Most recent 1 year 1099. Borrower must receive compensation in the form of commissions or independent contractor. Income will be calculated with an expense ratio per guidelines.
Asset Qualifier ***Not eligible for cash out**	Assets documented with 3 months asset statements. Maximum DTI 43% Minimum eligible assets: $1,000,000 or 150% of the loan balance Monthly income based on Total Eligible Assets less down payment, closing costs, and reserves divided by 84.

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Overview

Alt-QM guidelines are structured to guide its users towards making common sense lending decisions on loans to borrowers who may have limited access to credit. These borrower's situations generally require the consideration of alternative forms of documenting income and/or compensating factors which offset risk indicated by a recent credit event or elevated debt-to-income ratio. The borrower's ability to repay must be proven in all instances.
Loans eligible for sale to a Government Sponsored Entity (Federal National Mortgage Association ("Fannie Mae" or "FNMA") or Federal Home Loan Mortgage Corporation ("Freddie Mac" or "FHLMC") are not eligible for the Alt-QM programs.

Program Eligibility

Alt Doc: Program allowing for alternative income documentation to agency guides for qualifying.

The following loan products are eligible:

Fully Amortizing

- 30 Year Fixed
- 15 Year Fixed

Qualifying Rate (All Doc Types)

Fixed:

Qualify borrower(s) at the Note Rate.

Qualifying Payment:

Qualifying Ratios are based on PITIA payment with the principal and interest payments amortized over the scheduled loan.

Loan Amounts (10.17.23)

- Minimum Loan Amount: $100,000
- Maximum Loan Amount: $1,000,000

*Iowa: Min Loan Amt $125,000

Minimum FICO

- 660

Maximum LTV/CLTV

- *85%/80%

*LTV up to 85% if meets requirements noted on matrix. Max CLTV is still 80%.

Interested Party Contributions

Maximum 6%

Percentage is based on of the lesser of the property sales price or appraised value and may be applied towards the buyer's closing costs, prepaid expenses, discount points, and other financing concessions.

Non-seller Contributions

Contributions from a real estate agent/broker or mortgage originator may be allowed if the max contribution percentages are not exceeded for total contributions paid on behalf of the borrower and dollar amount does not exceed the dollar amount of non-reoccurring closing costs.

Excessive Contributions

Contributions in excess of the max contribution percentage limits are allowable: however, the excess of the contribution(s) must be subtracted from the purchase price for the calculation of LTV/CLTV.

Not Allowed

Allowances for any repairs, item replacement, condition of property, or recurring closing incentives are not allowed and must be subtracted from the purchase price for the calculation of LTV/CLTV.

Escrows | Impound Accounts

Escrows for taxes and insurance are required on all loans with LTVs greater than 80%, unless otherwise specified by applicable state law.

Secondary Financing

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

Age of Documents

- Credit Report: 90 days as of note date
- Consumer Debts: Creditor statement issued within 90 days or less prior to note date.
- Verification of Mortgage/Rent: 30 days as of funding date
- Payoff Demand: 20 days as of funding or such other date as determined by the payoff demand that identifies “valid through” date.
- WVOE: 30 days as of funding date
- VVOE: 10 calendar days to note date
- Paystubs: 30 days as of funding date or 31 days for borrowers paid monthly
- Bank Statements (Income): 45 days from the statement ending date as of the date of funding (cannot use an online transaction history to updated income).
- Bank Statements (Assets): 60 days as of the date of funding from ending date of second statement.
- Preliminary Title: 90 days as of funding date
- Appraisal: 120 days as of funding date. May be extended to 180 days with an appraisal re-certification of value.
- CPL: 90 days from date issued; must be valid through date of funding
- Hazard Insurance:
    - Purchase: Insurance must be in effect at time of closing
    - Refinance: If set to renew within 30 days of closing, renewal must e obtained or insurance provider must verify in writing that renewal is not available (dated within 30 days of closing) and 110% of current premium must be collected at closing.

Borrower Statement of Occupancy

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

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

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

State and Federal High-Cost Loans
High-Cost loans are not allowed

Prepayment Penalty
Not allowed

Underwriting
All files are manually underwritten

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

Assumability
Loans are not assumable.

Transaction Types

Eligible Transactions

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

Purchase/Sales Contract

A purchase money transaction must include a fully executed agreement of sale and counteroffer (if applicable) reflecting the following:
- Borrower as the purchaser of the property (borrowers / purchasers reflected as "or assignee" is not allowed);
- Seller as the vested owner on title;
- Correct address of the property;
- Correct sales price;
- Amount of down payment;
- Closing dates;
- Concessions and seller contributions.
- Any addenda as noted to be part of the purchase contract

Personal Property

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

Rate/Term Refinance

- Proceeds from the transaction are used to pay off an existing first mortgage loan and any subordinate loan used to acquire the property.
- Any subordinate loan not used in the acquisition of the subject property provided one of the following apply:
    - Closed end loan, at least 12 months of seasoning has occurred.
    - HELOC, at least 12 months of seasoning has occurred and total draws over the past 12 months are less than $2,000. HELOC must be closed.
- Buying out a co-owner pursuant to an agreement.
- Properties listed for sale must be taken off the market prior to disbursement of the refinance loan.
- Paying off an installment land contract executed more than 12 months from the loan application date.
- Cash back in an amount not to exceed the lesser of 2% of the new loan amount or $2,000 can be included in the transaction.
- LTV/CLTV is based upon the current appraised value, no seasoning required.

Cash-Out Refinance

- A refinance that does not meet the definition of a rate/term refinance.
- A mortgage secured by a property currently owned free and clear is considered cash out.
- The payoff of delinquent real estate taxes, federal taxes, state taxes and judgments (60 days or more past due) is considered cash out.
- The borrower must indicate the purpose of the cash out proceeds. Cash out proceeds must be solely for business purposes.
- Properties listed for sale must be taken off the market 6 months prior to disbursement of the refinance loan.
- Loans not eligible for cash-out:
    - A prior cash out transaction within the last 12 months unless a documented benefit exists.
    - Texas Home Equity 50(a)6.

Cash-Out Seasoning Requirements

- Cash-Out Seasoning is defined as the difference between application date of the new loan and prior financing note date or date of purchase.
- If owned less than 12 months, use lesser of purchase price plus documented improvements or appraised value. If more than 12 months use appraised

value.

- Cash-Out Seasoning of less than (6) months is not permitted unless the borrower acquired the property through an inheritance or was legally awarded the property (divorce, separation).
  - If the property was owned by an LLC that is majority-owned or controlled by the borrower(s), the time it was held by the LLC may be counted towards meeting the borrower's six-month ownership requirement.
  - If the property was owned by an Inter Vivos Revocable Trust, the time held by the trust may be counted towards meeting the borrower's six-month ownership requirement if the borrower is the primary beneficiary of the trust.

Delayed Financing

- Delayed Financing within 6 months of original purchase is allowed with the following restrictions:
  - The new loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan subject to the maximum LTV, CLTV, and HCLTV ratios for the cash-out transaction based on the lower of the initial purchase price or current appraised value.
  - The sources of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property).
  - At least one of the following must exist:
    - No mortgage financing was used to obtain the property.
      - The original purchase transaction is documented by a settlement statement, which confirms that no mortgage financing was used to obtain the subject property (A recorded trustee's deed or similar alternative confirming the amount paid by the grantee to trustee may be substituted for a settlement statement if a settlement statement was not provided to the purchaser at the time of sale).
      - The preliminary title search or report must confirm that there are no existing liens on the subject property.
    - If the source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC secured by another property), the settlement statement for the refinance transaction must reflect that all cash-out proceeds be used to pay off or pay down, as applicable, the loan used to purchase the property. Any payments on the balance remaining from the original loan must be included in the debt-to- income ratio calculation for the refinance transaction.
    - The lender 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.
    - All other rate & term refinance eligibility requirements are met. Rate &

Term pricing applies.

Non-Arm Length and Interested Party Transactions

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

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

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

Interested Party Transaction

A Conflict-Of-Interest Transaction occurs when the borrower has an affiliation or relationship with the Mortgage Broker, Loan Officer, Real Estate Broker/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.

Non-Arm's Length and Interested Party Transactions Eligibility

- Buyer(s)/Borrower(s) representing themselves as agent in real estate transaction.
  - Commission earned by buyer/borrower cannot be used for down payment, closing costs, or monthly PITIA reserves.
- Seller(s) representing themselves as agent in real estate transaction is allowed.
- Purchase between landlord and tenant
  - Must provide a recent 12-month VOR showing rent paid as agreed along with a copy of the seller's payoff demand showing not a foreclosure bailout.
- Purchase between family members
  - Gift of Equity requires a gift letter, and the equity gift credit is to be shown on the CD.
  - Must provide a 12-month mortgage history on existing mortgage securing subject property confirming Family Sale is not a foreclosure bailout.
- Borrower to provide cancelled check verifying the earnest money deposit.
- Employer to employee sales or transfers not allowed – the borrower cannot have a business relationship or business affiliation with the builder, developer, or seller of the property.
- Property trades between buyer and seller not allowed.

Non-Arm's Length Restrictions

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

Lease with Purchase Option

A Lease Option to Purchase is an agreement to lease a property for a specified period of time at an agreed upon monthly rent payment, in which a portion of the payments in excess of the market rents will be applied towards the down payment. Once the potential buyer has satisfied the terms of the down payment, he or she may execute the option to purchase the property at the sales price agreed upon in the Lease Option to Purchase Agreement. This may also be utilized for a "Land Contract" or "Contract for Deed" purchase. All Lease Option to Purchase transactions require the following:

- All parties to the transaction must execute the agreement; The agreement must disclose the time period of the option to purchase, amount of the earnest money deposit, and the terms of the monthly rent payments. The terms of the monthly rent payments must include a specific and reasonable amount (dollar amount or percentage) in excess of the monthly rent payments that will be credited towards the down payment via comparison to fair market rents (which requires a 1007 for UW review);
- Proof of the borrower's earnest money via a deposit (canceled check); and
- Copy of canceled checks (front & back) for the monthly rent payment covering the last twelve (12) months.

NOTE: Lease option transactions that do not involve an earnest money deposit or "sweat equity" including receipt(s) for materials and / or monthly rent in excess of proven market rents will not be considered a Lease Option to Purchase and must comply with standard purchase money requirements.

A Lease Option will always be a Purchase from the standpoint that the transaction will transfer ownership. This is relevant because it is therefore required to issue a Purchase form LE & CD (versus a Refinance form LE & CD).
However, in deference to the Purchase Price, as a separate calculation for the handling of LTV, under certain circumstances as defined below, LTV will be calculated using the current reconciled market value in lieu of the purchase price.
The value for determining the loan-to-value ratio will be the PURCHASE PRICE reflected on the option agreement or the appraised value, whichever is less, if:

- The borrower's earnest money deposit is less than three percent (3.0%) of the sales price; OR
- The Lease Option Agreement is executed within the last twelve (12) months.

The value for determining the loan-to-value ratio will be the current reconciled MARKET VALUE, if:

- The borrower(s) has(have) occupied the subject property for the last twelve (12) months; AND
- The Lease Option Agreement is executed greater than twelve (12) months ago;
- AND
- The borrower(s) has equal to or greater than three percent (3.0%) of the sales price invested by:
  - Earnest Money Deposit; OR
  - The Optionee provided "sweat equity" in the form of property improvements with receipts for materials as well as a detailed list of all such improvements including time to completion.

Borrower Eligibility

This program required that at least one borrower has an ITIN or has a social security number and one of the eligible EAD categories listed below in the Residency section.
If there is an additional borrower, that borrower can have an ITIN or a social security number.

Non-Occupant Co-Borrowers

Not allowed on this program

Borrower Identification: (8.18.23)

Champions requires documentation of the borrower(s) identity. The following are required:

1. Unexpired government photo ID (driver's license, passport, etc.) AND
2. Supplemental documentation – ITIN card or letter from the IRS, birth certificate, tax returns, paystub, tax bill, social security card (if EAD borrower), utility bill, W2.

ITIN Borrowers

- ITIN is required to be assigned to the borrower prior to application.
- Verification of the unexpired ITIN is supported by IRS form CP565 (both pages) confirming the ITIN is assigned to the borrower prior to application.
  - IRS form W7 is not acceptable evidence if the ITIN letter is not provided, or if the ITIN letter submitted is not legible.
  - Expired ITIN may be accepted if validated with IRS tax transcripts reflecting taxes have been filed using ITIN within the most recent 3 calendar years; OR a signed W7 to evidence current status.
- Unexpired passport or other government issued identification with photo or similar safeguard.
- If closing with a power of attorney in the U.S., a notarized, or equivalent copy of the power of attorney form must be approved by the title company and presented at closing.

EAD Borrowers

Borrower with an EAD card and social security number is eligible with the following EAD codes: A05, A10, A12, C08, C09, C31, IR1, CR1, K1.

- Must provide copy of front and back of unexpired EAD card
- Expired EAD may be accepted if validated with IRS tax transcripts reflecting taxes have been filed using social security number within the most recent 3 calendar years

Non-ITIN Co-Borrowers (10.17.23)

Permanent Resident Alien-(Non-ITIN Co-Borrower)

A person who is not a United States citizen and is legally able to maintain a permanent residency in the United States.
Acceptable evidence of lawful permanent residency must be documented and meet one of the following criteria:

- I-551 – Permanent Resident Card (Green Card) that does not have an expiration date
- I-551 – Permanent Resident Card (Green Card) issued for 10 years that has not expired
- I-551 – Conditional Permanent Resident Card (Green Card) issued for 2 years that has an expiration date, as long as it is accompanied by a copy of USCIS Form I-751 requesting removal of the conditions
- Un-expired Foreign Passport with an un-expired stamp reading as follows: “Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until mm-dd-yy. Employment Authorized.”

Non-Permanent Resident Alien-(Non-ITIN Co-Borrower)

A person who is not a United States citizen and resides in the United States under the terms of a temporary VISA. Non-permanent resident aliens are eligible.
If no ITIN or other borrower on loan who meets the EAD code requirements above, EAD code must be one of the codes listed in the Residency section above.

Visa Types allowed: E-1, E-2, E-3, EB-5, G-1 through G-5, H-1, L-1, NATO, O-1, R-1, OR TN NAFTA
If visa status will expire within one year and prior history of residency status renewal exists, no further documentation is required. If visa expires within 6 months of note date, evidence of renewal filing must be provided or documentation from current employer supporting likelihood of renewal.

Document Requirements:

- Copy of front and back of non-expired VISA or EAD.

Exclusionary list/OFAC/Diplomatic Immunity

All parties involved on each transaction must be screened through exclusionary lists used by Champions Funding LLC. The exclusionary list policy is applied to all loans originated under these guidelines.
Parties to the transaction must also be cleared through OFAC’s SDN List (borrowers, property sellers, employers, banks, etc.). A search of the Specially Designated Nationals and Blocked

Persons List may be completed via the U.S. Department of the Treasury website at https://sanctionssearch.ofac.treas.gov/.

Borrowers from OFAC sanctioned countries are ineligible. A list of sanctioned countries is available at https://home.treasury.gov/policy-issues/financial-sanctions/sanctions-programs-and-country-information.
Individuals with diplomatic immunity are not eligible due to the inability to compel payment or seek judgment. Verification the borrower does not have diplomatic immunity can be determined by reviewing the visa, passport, and/or the U.S. Department of State's Diplomatic List at https://www.state.gov/resources-for-foreign- embassies/deans-of-the-diplomatic-corps/.

OFAC Sanctioned Countries

Borrowers residing in the following countries are not eligible:

Afghanistan	North Korea	Venezuela
Belarus	Russia	Yemen
Cuba	Somalia	
Iran	Sudan	
Iraq	South Sudan	
Libya	Syria	

Title Vesting & Ownership

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

- Individuals
- Joint tenants
- Tenants in common
- Revocable Living Trust

Ineligible forms of vesting are:

- Land trusts,
- Blind Trusts
- IRAs
- Irrevocable Trust

Revocable Living Trust

Title vesting in an Inter Vivos Revocable Trust is permitted when the requirements set forth in this section are followed. The Fannie Mae requirements should be followed to the extent this section is silent.

The trust must be established by one or more natural persons, solely or jointly. The primary beneficiary of the trust must be the individual(s) establishing the trust. The trust must become effective during the lifetime of the person establishing the trust. If the trust is established jointly, there may be more than one primary beneficiary as long as the income or assets of at least one of the individuals establishing the trust will be used to qualify for the mortgage.

The Trustee must include either:

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

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

The following documentation is required:

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

Power of Attorney

A Power of Attorney ("POA") is a legal document giving one person (described below as the "agent" or "attorney in fact") the power to legally bind the principal. Loans with documentation executed by an agent on behalf of the borrower or principal under a POA are eligible, subject to approval by Legal, if all of the following requirements are met:

- Can only be created by a principal / borrower who is 18 years of age or older;
- The principal must also have the mental and legal capacity to enter into a contract;
- Must contain date of execution:
  - Dated such that it is valid and not expired at the time the relevant loan documents are executed;
- Must be is signed by the principal and acknowledged in person before a notary public. See Notary requirements in Section 23.5(D);
- Must comply with any other specific requirements of the state where the POA is notarized;

- Must be complete, which includes any referenced exhibits contained in the POA;
- All pages must be fully legible, including but not limited to, the notary stamp;
- The Agent / Attorney in Fact must be mentally and legally competent (e.g.: age 18 and over);
- The Agent / Attorney in Fact cannot be a licensed Real Estate Agent, Broker, or any party that directly benefits from the closing of the transaction;
- Agent's name on the POA must match the identification(s) provided;
    - If the Agent's name does not match the identification, Agent must provide a notarized Name Affidavit addressing the discrepancy;
- Principal's name on the POA must match the identification(s) provided to Champions Funding LLC;
- If the principal's name does not match the identification exactly, a letter of explanation will be required to address the name discrepancy;
- Principal must authorize the agent to execute the required loan documents on behalf of the borrower;
- Must be specific to the transaction by referencing (i) the subject property by common address or complete legal description; and / or (ii) the transaction with Champions Funding LLC;
    - A Durable Power of Attorney that is not made specific by referencing the property or Champions Funding LLC is not permitted, unless approved by credit risk.
    - Exception to use of a Durable Power of Attorney may be granted when the principal is mentally or physically incapacitated as confirmed in writing by the principal's treating physician submitted on the physician's letterhead bearing their full name, contact information, including phone number, and specialty, or by Court Order;
- Must not contain any blanks;
- No material or significant changes may be made to the POA once it is signed by the principal and notarized;
- Changes to the POA may only be made by the principal with his / her initials next to the correction or change;
- Title must provide written confirmation that the POA is acceptable and will be recorded concurrently with the security instrument, with a copy provided to Champions Funding LLC;
- If there is more than one (1) borrower, they may each provide a separate POA or a joint POA designating one (1) agent to sign on their behalf; and
- A POA terminates upon the principal's death. This means that the agent's authority to handle any financial matters on behalf of the principal when the principal dies.

Credit

Credit Reports

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

Special Considerations for Conflicting Identification Numbers

Transactions in which consumer identified with an ITIN has submitted income documentation indicating a SSN must be tracked, and must rely upon income verified as belonging to the consumer by an additional 3rd party record, such as:

- Filed federal tax return, or tax transcript (4506-T) matching the name and ITIN of the consumer
- Verification of Employment matching the name and address of the consumer
- Bank statement matching the name and address of the consumer with deposits reasonably consistent with periodic income received

Credit Reporting Bureaus

Each credit report must utilize three (3) credit reporting bureaus and credit scores provided by the following bureaus:

Credit Reporting Bureau	Credit Score
Equifax	Beacon 5.0
Experian	FICO (V2)
TransUnion	FICO RISK SCORE CLASSIC 04

Consumer Debt Not Reported

Consumer debt claimed by the applicant but not reported on the credit bureau are to be included in the debt-to-income ratio.

Credit History

Credit history is defined as the record of the borrower's payment of credit and voluntary obligations. The credit history is measured on the credit depth, number of obligations, and the demonstrated intent to repay. A borrower with a past history of consistently meeting financial obligations provides reasonable justification that he/she is likely to continue to do so in the future.

Tradeline Requirements (10.17.23)

Standard Tradelines

One (1) tradeline reporting satisfactorily for 24+ months or two (2) tradelines reporting for 12+ months all with activity in the most recent 90 days.

- If the borrower has a minimum score of 660, but does not meet the tradeline requirements, Champions will allow at a maximum LTV of 75% and maximum loan amount of $750,000. This is an exception and requires the appropriate approval authority.
- 1 Alternative tradeline may be used to meet the minimum tradeline requirements.
  - Borrower must provide a 12-month history of on-time payments.

  - Alternative tradelines include utility bills paid monthly such as gas, electric, water, cell phone, or internet. We will not accept monthly subscriptions such as Netflix, Spotify or other types of similar services.
  - Bills must be paid monthly.
- Only the primary wage earner needs to meet minimum tradeline requirement.

<u>The following are not acceptable to be counted as a tradeline:</u>
Any liabilities in deferment status
Accounts discharged through bankruptcy.
Authorized user accounts
Disputed accounts
Charge-offs, collection accounts
Foreclosures, deed in lieu of foreclosure, short sales, or pre-foreclosure sales

Credit Score Determination

Qualifying FICO is primary wage earner's mid-score. Primary wage earner is defined as the borrower who earns the highest monthly income for the loan transaction.

Credit Score Selection:

- Decision Score Definition - Minimum of one borrower with two credit scores. Use the lower of the two credit scores or the median if there are three credit scores.
  - A borrower with only 1 credit score is allowed with the following:
    - Min FICO 700
    - Max LTV 75%
    - Max Loan Amount: $750,000
    - Requires second level approval from management/credit risk.

Fraud Alerts

The three national credit repositories have developed automated messaging to help identify possible fraudulent activity on a credit report. Examples of fraud alerts include:

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

All Fraud Alerts must be properly addressed and resolved. The actions must be reasonable and compliant with applicable laws. An underwriting decision cannot be made without full resolution of the alert.

Credit Report Security Freeze

The credit report used to evaluate a loan may not reflect a security freeze and must be resolved prior to an underwriting decision. If a borrower unfreezes his or her credit after the date the original credit report was ordered, a new three-bureau merged report must be obtained to reflect current and updated information from all repositories.

Credit Inquiries

A signed letter of explanation from the borrower or creditor is required for all inquiries within the most recent 90 days to determine whether additional credit was granted as a result of the borrower's request. If new debt was obtained, borrower must provide documentation on the current balance and payment. If no new credit was extended, the borrower must state the purpose of the inquiry.

Debt Monitoring Service

Evidence of an active Debt Monitoring Service is required and must be in effect within 10 days of closing.

Consumer Credit

Consumer Credit History

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

Consumer Credit Charge-Offs and Collections

- Individual collection and non-mortgage charge-off accounts totaling greater than $4,000 must be paid in full prior to or at closing.
- Medical collections may remain open regardless of amount.
- 2nd mortgage or junior lien that has been charged off is subject to foreclosure seasoning periods for grade determination based upon the charge-off date.
- Collections and charge-offs that have expired under the state statute of limitations on debts may be excluded. Evidence of expiration must be documented.

Charge-offs and collections not excluded by the above bullet points must be paid or may stay open if ALL of the below requirements are met:

- Payments for open charge-offs or collections are included in the DTI (Subject to program DTI restrictions) based on a documented payment plan AND
- Payment plan provided documented with 3 months timely payments (may not pay in advance for qualifying) AND
- Reserves are sufficient to cover the balance of the charge-offs or collections and meet reserve requirements.

Judgments or Liens Impacting Title

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

Income Tax Liens

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

Tax liens that do not impact title may remain open on purchase and rate and term refinance transactions only provided the following are met:

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

Consumer Credit Counseling

Consumer Credit Counseling assists individuals with financial management of debts in an attempt to avoid further delinquencies or possible bankruptcy. Generally, creditors agree to a lesser repayment under a Credit Counseling plan. A copy of the CCC record of monthly payments covering the look back period is required. The consumer credit grade determination is based on the grade criteria of a Chapter 13 bankruptcy. The CCC must be complete and / or paid in full prior to or through closing.

Time Share Accounts

The payment history of a time-share account is treated the same as consumer credit.
Time Share accounts are not treated as mortgages for the sake of a mortgage rating.

Bankruptcy

Bankruptcy seasoning required is 36 months (all bankruptcy types).
All bankruptcies must be settled at time of application. Evidence of bankruptcy resolution is required. The length of time is measured from the **discharge/dismissal** date to the note date.

Housing History

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

Mortgage Payment History – Forbearance/Payment Deferment Clarification

Follow current FNMA reinstatement requirements for Borrowers in forbearance. If the borrower has resolved missed payments through a loss mitigation solution, they are eligible for a new mortgage loan if they have subsequently made at least three (3) timely payments:

- For a repayment plan, the borrower must have made either the three (3) consecutive timely payments under the repayment plan or completed the repayment plan, whichever occurs first.
- For a payment deferral, the borrower must have made at least three (3) consecutive timely payments following the effective date of the payment deferral agreement.

***Note:** The source of funds used to reinstate the loan must be documented if the reinstatement was completed after the application date of the new transaction. The required three (3) consecutive timely payments cannot be paid in advance or in a lump sum.

Mortgage Payment History Documentation

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

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

since the year-end mortgage account statement was issued.

***Note:** For VOMs tied to private mortgages – 12 months recent canceled checks and/or bank statements are required to support the VOM provided as well as a copy of the original Note plus any additional Riders or subsequent Modifications to ensure the loan being paid off is current and is not past its maturity date as that is considered being in default

Rental Payment History Documentation

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

- Canceled checks can be provided but are not necessarily always required. In lieu of canceled checks the borrower may provide bank statements, copies of money orders, or other reasonable methods for documenting the timely payment of rent. The documentation must clearly indicate the payee and amount being paid and reflect that the payments were made on a consistent basis.
- Direct verification of the payment of rent from the landlord. Direct landlord verification is acceptable whether the landlord is an individual or a professional management company.
  - Private VORs do not require cancelled checks/bank statements unless:
    - Landlord is a family member.
    - Borrower is buying the home they are living in.
    - Using as a minimum tradeline.

Borrowers who currently live rent free are permitted with supporting documentation, such as a fully executed Rent Free Letter from the current legal owner of the property the borrower is residing in.

Housing Events

Rolling Delinquency

Rolling delinquencies are considered separate events.

Forbearance/Modification Agreement*

Loan modification seasoning required is 36 months.
Loan modifications are treated as a short sale / deed-in-lieu for grading and pricing purposes. Servicing retention related interest rate modifications are excluded from the seasoning requirement. A letter or explanation from the borrower addressing the situation that made modification necessary must be provided. The current housing payment history along with the new housing payment must be considered when determining if the situation is adequately resolved.
*This does not apply to modifications after a COVID related forbearance.

Foreclosures

Foreclosure seasoning required is 36 months.

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

Short Sale/Deed-in-Lieu Seasoning

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

Past Due Accounts

Past due consumer debts must be paid current prior to closing. Funds used to pay the debt current will need to be sourced.

Liabilities

Borrower’s Debts and Liabilities

The borrower's debts and liabilities include all revolving charge accounts, installment loans, real estate loans, negative income from rental properties, stock pledges, alimony, child support, and all other debts of a continuing nature.
Verification is required for any other liability not reflected on the credit report.

Alimony/Child Support

Monthly payments that extend beyond ten (10) months are included in debt-to-income ratio. A copy of the complete divorce decree, dissolution of marriage, or other court document must be provided and included in the loan file.
If less than 10 payments remain based on note date, the payments may be excluded from DTI if borrower has the additional reserves to cover the remaining payments.

Business Debt

When a self-employed borrower claims that a monthly obligation that appears on their personal credit report (such as a Small Business Administration loan) is being paid by the borrower's business, the lender must confirm that it verified that the obligation was actually paid out of company funds and that this was considered in its cash flow analysis of the borrower's business.

The account payment does not need to be considered as part of the borrower's DTI ratio if:

- the account in question does not have a history of delinquency,
- the business provides acceptable evidence that the obligation was paid out of company funds (such as 12 months of canceled company checks), and
- the lender's cash flow analysis of the business took payment of the obligation into consideration.

The account payment must be considered as part of the borrower's DTI ratio in any of the following situations:

- If the business does not provide sufficient evidence that the obligation was paid out of company funds.
- If the business provides acceptable evidence of its payment of the obligation, but the lender's cash flow analysis of the business does not reflect any business expense related to the obligation (such as an interest expense—and taxes and insurance, if applicable—equal to or greater than the amount of interest that one would reasonably expect to see given the amount of financing shown on the credit report and the age of the loan). It is reasonable to assume that the obligation has not been accounted for in the cash flow analysis.
- If the account in question has a history of delinquency. To ensure that the obligation is counted only once, the lender should adjust the net income of the business by the amount of interest, taxes, or insurance expense, if any, that relates to the account in question.

Contingent Liabilities/Co-Signed Debt

The monthly payments for contingent liabilities are not included in the borrower's debt-to-income ratio, if the payments have been made in a timely manner and canceled checks or bank statements covering the last twelve (12) months' showing no late payments by the person other than a borrower who is paying the debt will be required.

Installment Debt

Monthly payments on installment debts* extending beyond ten (10) months are included in the borrower's debt-to-income ratio. The required monthly payment reflected on the most recent statement may be used instead of the payment reflected on the credit report.

If less than 10 payments remain based on note date, the payments may be excluded from DTI if borrower has the additional reserves to cover the remaining payments.

*Auto lease contracts provide the consumer with an option to either purchase the automobile or return it to the dealer at the end of the lease contract. Regardless of the two options, it is likely the consumer will secure new financing for another automobile once the lease expires.

Therefore, monthly auto lease payments are included in the borrower's debt-to-income ratio regardless of the number of payments remaining on the lease contract.

If no payment info is showing on the credit report, the calculation of the monthly payment will be 2% of the higher of the current unpaid balance or the high credit limit.

Deferred Installment Debt

Deferred installment debts must be included as part of the borrower's recurring monthly debt obligations. For deferred installment debts other than student loans, if the borrower's credit report does not indicate the monthly amount that will be payable at the end of the deferment period, the Seller must obtain copies of the borrower's payment letters or forbearance agreements so that a monthly payment amount can be determined and used in calculating the borrower's total monthly obligations.

Lines of Credit

Monthly payments must be calculated on revolving lines of credit and included in the applicant's debt-to-income ratio. The monthly payment is determined based on the present outstanding balance.

Mortgage Payments for Rental Properties

The monthly housing payments (PITIA) must be satisfactorily documented on all rental properties owned by the borrower.

The borrower must provide satisfactory documentation verifying the amount of the monthly payments including taxes, insurance, and HOA dues.

If the monthly payments for taxes and insurance are impounded, the borrower must provide satisfactory documentation verifying an impound account.

Property Owned Free and Clear

A subject property that is owned free and clear requires proof that the property is free and clear of all mortgage liens.

Property taxes, insurance, and HOA dues must be included in DTI calculation.

Revolving Debt

Monthly payments of all revolving accounts with outstanding balances are included in the calculation of the debt-to-income ratio calculation. The monthly payments reflected on the credit report are used for the calculation of debts. When revolving accounts with outstanding balances do not have stated minimum required payments, the monthly payment calculation is five percent (5%) of the outstanding balance or $10 per month, whichever is greater.

A ninety-day same as cash account is considered a revolving account, the monthly payment is calculated using five percent (5%) of the outstanding balance.

Authorized User Accounts

Authorized user accounts can be removed from DTI calculation.

Timeshares

All timeshare accounts are treated as consumer debt.
Monthly maintenance fees must be documented and included in DTI.

Student Loans

If a monthly student loan payment is provided on the credit report, the lender may use that amount for qualifying purposes. If the credit report does not reflect the correct monthly payment, the lender may use the monthly payment that is on the student loan documentation (the most recent student loan statement) to qualify the borrower. If the credit report does not provide a monthly payment for the student loan, or if the credit report shows $0 as the monthly payment, the lender must determine the qualifying monthly payment. For deferred loans or loans in forbearance, the lender may calculate:

- a payment equal to 1% of the outstanding balance (even if this amount is lower than the actual fully amortizing payment), or
- a fully amortizing payment using the documented loan repayment terms.
- Payment plans based on income may have student loan payments omitted if the following third-party documentation is provided showing both:
    - Borrower is enrolled in a repayment plan based on income, AND
    - Based on the borrower's income, the current payment is $0.00.

Lease Obligations

Lease obligations must be included in the debt-to-income ratio calculation, regardless of time remaining on the lease.

Open 30-day Charge Accounts

For open 30-day charge accounts that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, 5% of the outstanding balance will be considered to be the required monthly payment. A monthly payment can be omitted from the DTI calculation if the borrower has additional reserves to cover the balance.

Obligations not Appearing on Credit Report

Housing and Mortgage Related Obligations

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

Current Debt Obligations, Alimony, and Child Support

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

Other Real Estate Owned

- Schedule of Real Estate Owned of the 1003 application must be fully completed to include the following information:
    - Present Market Value
    - Amount of Mortgages & Liens
    - Gross Rental Income (note: will use 75% to qualify loan)
    - Mortgage Payments
    - Other Expenses not escrowed in mortgage payment (taxes, insurance, HOA, etc). The information stated will serve as verification of the income and expenses of the properties. No supporting documentation will be required.
- Verification of properties owned free-and-clear is required.

Assets

Documentation Options

Various forms of documentation are acceptable depending on borrower asset type. Assets and reserves should be calculated and documented to Fannie Mae guidelines unless otherwise specified in the guidelines below. Fannie Mae guidelines prevail where this guide is silent regarding sources and types of assets as well as asset types not eligible to be included.

Verification of Assets/Funds

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

- Account Statements should cover most recent 60-day period.
- Documentation provided must, at minimum, validate the current month's beginning balance, total deposits, total withdrawals, and current month's ending balance.
- Stocks/Bonds/Mutual Funds – 100% of stock accounts can be considered in the calculation of assets for closing and reserves. Funds for closing must be liquidated.
- Vested Retirement Account funds – 70% may be considered for closing and reserves after any outstanding loans are accounted for. Funds for closing require proof of liquidation.
- Non-vested or restricted stock accounts are not eligible for use as down payment or reserves.
- Funds pledged or used as collateral for another loan are ineligible.
- When bank statements are used, large deposits must be evaluated. Large deposits are defined as any single deposit exceeding 50% of the borrower's average monthly income amount. Requirements vary based on transaction type:
    - Refinance: Documentation or explanation is not required however it must be

clear that any borrowed funds, including any related liability, are considered.
  - Purchase: Documentation is required to verify the large deposit came from an acceptable source. Any unverified large deposit must be backed out of the qualifying assets and a letter of explanation is required.
  - Asset Qualifier documentation option: Follow the guidance listed above for Refinances vs. Purchase but the large deposit as a single deposit that exceeds 3X the average deposit amount since there is no income or DTI listed on this program.

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

Earnest Money and Deposit

Earnest Money and Deposit on Sales Contracts are considered part of the down payment. Earnest money and deposits require verification by one of the following:

- Copy of check (canceled or not canceled) with certified escrow deposit receipt.
- Bank statement showing the check cleared with certified escrow deposit receipt.

Verification of acceptable source of funds on any deposit paid outside of escrow must be satisfactorily documented.

Gift Funds

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

- A 5% down payment has been made by the borrower from their own funds and the LTV does not exceed 85%.
- Fannie Mae guidelines are to be followed for donor relationship to borrower(s), documentation, proof of funds, and evidence of receipt.
  - 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, developer, the real estate agent, or any other interested party to the transaction.
  - Documentation requirements:
    - Gifts must be evidenced by a letter signed by the donor, called a gift letter. The gift letter must:
      - Specify the dollar amount of the gift.
      - Specify the date the funds were transferred.
      - Include the donor's statement that no repayment is expected; and
      - Indicate the donor's name, address, telephone number, and relationship to the borrower.
- Verifying donor availability of funds and transfer of gift funds

- Sufficient funds to cover the gift must be verified either in the donor's account or have been transferred to the borrower's account. Acceptable documentation includes the following:
- Copy of the donor's check and borrower's deposit slip,
- 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
- Settlement statement showing receipt of the donor's check.
- When the funds are not transferred prior to settlement, the lender must document that Donor gave the closing agent the gift funds in the form of a certified check, a cashier's check, or other official check (i.e. wire confirmation).

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

Gift of Equity

Gift Equity is allowed provided the following is met:

- Treat as a purchase transaction. Fully executed purchase agreement is required.
- The donor of the gift of equity must be from a family member (i.e.: spouse, any type of domestic partnership or union, fiancée, boyfriend / girlfriend, parent, brother, sister, child, grandparent, aunt, uncle, nephew, niece).
- A gift letter signed and dated by the donor and borrower is required. The gift letter must explain the gift of equity, stating the amount of the gift and that no repayment is expected or implied.
- Proof the existing mortgage lien(s) secured by the subject property is not currently delinquent.
- The borrower's minimum contribution towards the costs to close must comply with Champion's minimum requirements.

A Power of Attorney ("POA") may not be utilized in a transaction where the Donor's interest is being represented by a POA, where said POA is also the beneficiary to the gift.

Business Assets

Business funds may be used for down payment, closing costs and for the purposes of calculating reserves. The borrower must be listed as an owner of the account and the account needs to be verified per requirements in this Guide.

Business funds used to qualify are calculated based on the borrower's percentage of ownership in the company. For example, if a borrower owns 25% of the business, then only 25% of the available balance of the account would be allowed to qualify.

Relocation Credits and Residence Liquidation

A copy of the commitment letter from the employer's relocation company describing the details and terms of the relocation package. A receipt showing the deposit of funds into the borrower's account or escrow/title must be obtained and included in the loan file.

Sale of Real Property

If the source of funds to close the subject transaction will be proceeds from the sale of real estate owned by the borrower, the amount of the net proceeds must be documented as follows as of the time of initial underwrite:

Pending Sale

If the sale has not closed, a copy of the agreement of sale and estimated Settlement Statement (CD or HUD-1) must be obtained and reviewed by the underwriter to ensure the net proceeds will be sufficient for closing. The final Settlement Statement (CD or HUD-1) showing sufficient funds to close must be provided at closing and included in the loan file.

Closed Sale

If the sale has closed, a copy of the Final Settlement Statement must be provided. Verification that the net proceeds from the sale are either held in escrow / title or on deposit in the borrower's account must be obtained and included in the loan file.

Trust Accounts

Funds disbursed from a borrower's trust account are an acceptable source for down payment, closing costs, and reserves provided the borrower has immediate access to the funds.

- Written documentation of the value of the trust account from either the trust manager or the trustee; and
- The conditions under which the borrower has access to the funds and the effect, if any, that the withdrawal of funds will have on trust income used in qualifying the borrower for the mortgage.

Sale of Personal Assets

Proceeds from the sale of personal assets are an acceptable source of funds for down payment, closing costs, and reserves, provided the individual purchasing the asset is not a party to the property sale or mortgage financing transaction.

The following must be documented:

- Borrower's ownership of the asset
- Value of the asset, as determined by an independent and reputable source
- Transfer of ownership of the asset, as documented by either a bill of sale or a statement from the purchaser
- Borrower's receipt of the sale proceeds from documents such as deposit slips, bank statements, or copies of the purchaser's canceled check

Life Insurance

The cash value must be verified by a letter from the insurance company and a deposit receipt showing deposit of funds into the borrower's account.

Foreign Assets

Foreign funds must be documented in a domestic account a minimum 30 days prior to closing and cannot come from any of the following countries:

Afghanistan	North Korea	Venezuela
Belarus	Russia	Yemen
Cuba	Somalia	
Iran	Sudan	
Iraq	South Sudan	

Libya Syria

Foreign deposits will need to be fully documented to validate the source and documentation in a foreign language will need to be translated into English.

Virtual Currency

Virtual currency that has been exchanged into U.S. dollars is acceptable for the down payment, closing costs, and reserves provided the following requirements are met:

- there is documented evidence that the virtual currency has been exchanged into U.S. dollars and is held in a U.S. or state regulated financial institution, and
- the funds are verified in U.S. dollars prior to the loan closing.

A large deposit may be from virtual currency that was exchanged into U.S. dollars. Sufficient documentation must be obtained to verify the funds originated from the borrower's virtual currency account. Virtual currency may not be used for earnest money for the purchase of the subject property.

Note: Payment on any debt secured by virtual currency must be included when calculating the debt-to- income ratio.

Subordinate Financing

New and existing junior liens secured by the subject property and subordinating to the first mortgage is allowed provided the following is met:

- The combined loan-to-value of the first and subordinating junior lien(s) may not exceed program thresholds.
- The junior lien(s) must be from an institutional lender.
- The existing junior lien(s) must have a remaining term of at least five (5) years.
- The terms of the note must provide for regular monthly payments of at least interest only with no provisions for future advances, or wrap-around terms.
- The principal and / or interest payment must be added to the monthly debt to income ratio.
- A copy of the executed note on the subordinating junior lien(s) must be obtained and included in the loan file. The note must be reviewed and approved by the underwriter prior to ordering loan documents.
- A certified copy of the fully executed subordination agreement must be reviewed and approved by the underwriter prior to funding the loan. The subordination agreement must record concurrently with the first mortgage / deed of trust.

Home Equity Line of Credit

When Secondary or Subordinate financing is a Home Equity Line of Credit the following additional criteria must be met:

- The property being financed should be owner occupied.
- The calculation of the CLTV should include the total usable Home Equity Line of Credit.
- A copy of the Note for the Home Equity Line of Credit must be obtained to determine the payment based on the interest rate in effect for the Line of Credit Loan on the date that the Loan application is underwritten.

- An executed estoppel agreement is required from the existing line of credit holder. The estoppel agreement must freeze the credit line at the current maximum limit.

Ineligible Assets

Cash-on-hand
Sweat equity
Grant funds
Builder profits
Employer Assistance Assets
Cash advance on credit card
Commission from sale of subject property
Salary advance
Sweat equity
Down payment assistance programs
Unsecured loans or cash advances
Section 8 Voucher Assistance
Proceeds of SBA/PPP loans or any other government assistance
Trade Equity including 1031 Exchange funds
Margined assets listed within client accounts
Stock Options and non-vested restricted stock
Non-vested stock
Reverse mortgage pension fund
Seller real estate tax credit
Foreign assets
Cryptocurrency

Reserves

LTV ≤ 80%:
3 months
LTV > 80%:
FICO 700+: 12 months
FICO 720+: 9 months
FICO 740+: 6 months
FICO 760+: 3 months
Additional Reserve Information:

- Additional Reserves – **Required on second homes only**. Each financed property owned, in addition to the subject property, requires 2 months additional reserves of subject property's PITIA unless the subject property itself requires a minimum of 12 months reserves. Total reserve requirement is not to exceed twelve (12) months PITIA of subject property.
- Reserves must be sourced and documented per guidelines.
- Proceeds from 1031 Exchange cannot be used to meet reserve requirements.

- Cash out proceeds can be used as reserves.
- Funds pledged or used as collateral for another loan are ineligible.

Unacceptable sources of funds include, but are not limited to:
- Credit card advances & any unsecured loan;
- Non-liquid funds, real-estate, or other assets;
- Cyber-currency(ies);
- Funds held in a business or trust name*; and / or
- Gift Funds.
- Funds held in foreign accounts

*Funds held in a business or trust name are acceptable if the borrower(s) represent 100% ownership or are the exclusive trustee(s) / beneficiary(ies).

Income/Employment

Income Analysis

Stability of Income

Stable monthly income is the Borrower's verified gross monthly income which can be reasonably expected to continue for at least the next three years. The borrower must demonstrate that both the source and the amount of the income are stable:
A two-year employment history is required for the income to be considered stable and used for qualifying.
When the Borrower has less than a two-year history of receiving income, an analysis must be performed to justify the stability of the income used to qualify the Borrower.
While the sources of income may vary, the Borrower should have a consistent level of income despite changes in the sources of income.

Earnings Trends

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

Employment Gaps

The borrower must explain any employment gaps that extend beyond sixty (60) days.

Verification of Previous Income

If the borrower(s) present employment does not cover the length of employment required for the documentation program, verification of their previous employment is required.

Debt to Income Ratio

Max 50% standard
Max 43% for Asset Qualifier

Residual Income

The borrower's income is subject to a test for gross residual income based on the following table for dependent family members.
Residual income is total income minus total debts including child support/alimony.

Household Members*	Minimum Residual Income
1	$2,500
2	+ $250 for first dependent
3+	+ $125 per additional member

*Borrower is 1 household member
Example: A borrower is married with 3 children: $2,500 + $250 + $125 * 3 = $3,125 residual income requirement.

Verification of Employment

An employer may be required to complete a written Verification of Employment ("VOE") with certain information regarding the borrower's employment and income. A Fannie Mae Form 1005 or similar form may be utilized, but a written VOE should include at a minimum the following information:

- Date of employment;
- Present position;
- Current base pay and frequency paid;
- Overtime, commission or bonus income, if applicable;
- Probability of continued employment, if available; and
- Date verified, name, title, and signature of the person verifying the information.

Paystubs

Pay stubs should reflect year-to-date earnings. There must be a sufficient number of pay stubs to cover a one-month period. Handwritten pay stubs are acceptable, if supported by bank statements for the last two (2) months.

Unacceptable Income

The following sources of income are not acceptable:

- Contributions or Support from Family Members
- Educational Benefits
- Illegal Income
- One-time Capital Gains (continuing capital gains may be considered as acceptable source of income)
- Refund of Federal, State or Local Income Tax
- Self-Employment Income derived from the growing, distribution, transfer, development, or other vendor / supplier relation to marijuana. W2 employees of a marijuana related business are eligible.

Income Documentation Programs

Wage Earner

W2
WVOE
Self-Employed
12 Month Bank Statements
P&L
1 Year Tax Returns
1099
Non-Employment Income
Asset Qualifier

Wage Earners

W2 Program

Documentation:

- Most recent 2 years W2s
- 2 most recent bank statements reflecting direct deposits of income OR
  Most recent paystub reflecting year to date earnings
- Verbal VOE within 10 days of note date
- Fully executed 4506c for W2 transcripts is required and must be processed.
- W2 transcripts must validate the W2s provided and any discrepancies must be addressed.
- W2 from self-employment is not permitted.

Written VOE Program

The WVOE Program will be documented and limited to:

Documentation:

- Written VOE completed in full by employer
- 2 most recent bank statements reflecting direct deposits of income. Must reflect deposits of at least 65% of gross wage/salary reflected on WVOE.
- WVOE must be dated within 30 days of note date.
- Borrowers employed by family members or related individuals not eligible
- Limited to wage/salary only. Supplemental income sources must be documented via standard documentation.
- An internet search of the business is required with documentation to be included in the file to support existence of the business.
- Verbal VOE from employer is required within 10 days of the note date.
- Not allowed on second homes.

Self-Employment

Length of Self-Employment

Income from a self-employed borrower generally requires two (2) or more years to be considered stable income. A person who has been self-employed for less than (1) year should have a history of previous successful employment in the same occupation or a related field. The underwriting process must carefully analyze the following factors on a self-employed borrower:

- Borrower's training and experience;
- Location and nature of the business; and
- Demand for that type of business in the area.

A borrower who has been self-employed for less than two years but more than one year may be considered on a case-by-case basis subject to credit risk approval and the following:

- Self-employment must be in the same line of work as previous employment; and
- One (1) full year of income verified / documented with one (1) year of federal income tax returns and a current profit and loss statement.

12 Month Business Bank Statements (Personal or Business)

Account statements should be within 45 days of closing (a maximum 30-day grace period is allowed at the beginning of each month to ensure prior month's statement availability). Documentation provided must, at minimum, validate the current month's beginning balance, total deposits, total withdrawals, and current month's ending balance. A large deposit is defined as a single deposit that exceeds 3X the average deposit amount.

All loans will be initially underwritten with 12 months bank statements. If the income exhibits a seasonality of income effect, whereby a two-year history would be a better representation of the borrower's income, then we may require 24 months of bank statements.

For example, if the borrower receives most of their income/deposits in a particular quarter or six-month period as we may see in certain industries such as mining, construction, landscaping, etc., then the utilization of 24 months of bank statements is required to support the income as reliable.

Personal Bank Statements

Base requirements:

- Borrowers must be self-employed for at least 2 years.
- URLA must reflect a minimum of 2 year employment history.
- Business being used to source the income must be in existence of 2 years supported by one of the following:
  - CPA letter, or
  - Business License, or
  - Other reasonable evidence of business activity.
- Nonprofit Entity not eligible.
- Funds/Deposits in a Trust are ineligible.

Documentation Requirement**:**

- 12 or 24 months of consecutive Personal bank statements. Most recent to be dated within 45 days of the note.
- Most recent 2 months business statements. If client runs their business only through their personal account, then see Business and Co-Mingled Bank Statement guides below.
- Verify borrower owns 25% of the business by providing one of the following:
  - CPA or Tax preparer letter, operating agreement or other reasonable

documentation.

Calculation Method:

- Total qualifying deposits from all bank statements, less any inconsistent deposits, divided by the number of months of bank statements reviewed.
- 100% of the result is used as the % of ownership would be considered when the income deposit is made into the personal account.
- The following items are to be EXCLUDED as eligible deposits**:**
  - Transfers from other bank or asset accounts without inclusion of relevant statements.
  - Extraordinary asset sales
  - Any borrowed funds or grants (i.e., SBA loans, SBA PPP grants or any other similar COVID-19 related loans or grants).
  - Tax refunds
  - Gift funds

***Note:** the above list is not exhaustive and is subject to Underwriter review and discretion

Business and Co-Mingled Bank Statements

Base requirements:

- Borrowers must be self-employed for at least 2 years. URLA must reflect a minimum of 2 year employment history.
- Business being used to source the income must be in existence of 2 years supported by one of the following:
  - CPA letter, or
  - Business License, or
  - Other reasonable evidence of business activity.
- Nonprofit Entity not eligible.
- Funds/Deposits in a Trust are ineligible.

A co-mingled bank account is a personal account used by a borrow for both business and personal use.

- A separate business account is not required.
- The borrower must be the sole owner of the business.

Documentation Requirement:

- 12 or 24 months of consecutive BUSINESS bank statements. Most recent to be dated within 45 days of the note.
- Verify borrower owns 25% of the business by providing one of the following:
  - CPA or Tax preparer letter, operating agreement or other reasonable documentation.

Calculation Method:

- Total qualifying deposits from all bank statements, less any inconsistent deposits, multiplied by 50% (or alternate expense factor as established by previously discussed means), multiplied by the ownership percentage, divided by the number of bank statements.

- The following items are to be EXCLUDED as eligible deposits:
  - Transfers from other bank or asset accounts without inclusion of relevant statements.
  - Extraordinary asset sales
  - Any borrowed funds or grants (i.e., SBA loans, SBA PPP grants or any other similar COVID-19 related loans or grants).
  - Tax refunds
  - Gift funds

***Note:** the above list is not exhaustive and is subject to Underwriter review and discretion

Expense Ratio:

A standard 50% expense factor will be applied to the total of eligible deposits from the business bank statements. If the business operates more efficiently or typically has a materially different expense factor (higher or lower than the standard expense factor) the expense ratio will be determined by the industry classification of the business and the information provided on the Business Narrative Form or through attestation of expense ratio by a CPA, EA or licensed tax professional.

Underwriter guidance that may be applied when considering expense ratios other than 50% as described by the CPA, EA or Tax Preparer on the Business Narrative Form.

90% Expense Ratio (10% Profit Margin)

- A business with any of the following characteristics must use the 90% expense ratio:
  - Multiple commercial locations
  - More than 25 employees
  - Industry Classification of: Retail Trade, Wholesale Trade, Accommodation-Food Service, Agriculture-Forestry-Fishing-Hunting, Construction, Car Dealerships

70% Expense Ratio (30% Profit Margin)

- A business with any of the following characteristics must use the 70% expense ratio:
  - A single commercial location
  - More than 10 employees, but not more than 25 employees
  - Industry classification of: Manufacturing, Transportation-Warehousing, Utilities, Mining-Quarrying-Oil & Gas Extraction, Other Services, Administration-Support-Waste Management-Remediation, Information

50% Expense Ratio (50% Profit Margin)

- A business with any of the following characteristics must use the 50% expense ratio:
  - Work from home or shared facility
  - 1 or more employees, but not more than 10 employees
  - Industry classification of: Real Estate-Rental and Leasing, Arts-Entertainment-Recreation, Professional-Scientific-Technical Services, Health Care-Social

Assistance, Educational Services, Finance and Insurance

Additional information:

Income trend: Bank statements should show a stable or increasing trend. If the trend is declining and/or irregular (i.e. monthly deposit averages fluctuate more than 20%), additional documentation may be required such as all pages of the bank statement or up to an additional 12 months of statements.

Co-Borrower Options: Full documentation from co-borrower who is not self-employed may be used to supplement qualifying income. Follow normal full documentation requirements from FNMA.

P&L

Profit & Loss statement prepared by a Certified Public Accountant (CPA) or an IRS Enrolled Agent (EA) or CTP (Certified Tax Preparer). The statement does not need to be audited, only prepared by a professional. The credit file must contain documentation showing the CPA is currently licensed in their state or the EA is currently active (Screen shot of the IRS web site).

- 12-Month CPA, EA, or CTP compiled P&L Statement
- Proof of CPA current state license required or EA (proof EA currently active on IRS web site) dated within 30-days of the loan application, and
- Preparer must attest to they have prepared the borrower's most recent tax return, and
- Preparer must provide the borrower's % of ownership.
- Expenses must be reasonable for the industry. CS reserves the right to require additional information.
- Depreciation, Depletion and Amortization on P&L may be added back to income.
- Qualifying income is the net income from the P&L divided by the time period covered by the P&L multiplied by the % of ownership.

Co-Borrower Options: Full documentation from co-borrower who is not self-employed may be used to supplement qualifying income. Follow normal full documentation requirements from FNMA.

1099

Permitted for **individual(s)** earning 100% commission or for independent contractors. 1099 provided must cover a complete calendar year.

- Most recent 1-year 1099s or 1099 transcript(s) permitted
- One of the following Business expense analysis methods:
    - 90% Net Margin (10% Expense Ratio)
    - 3rd Party prepared P&L (CPA, EA, accountant, tax preparer) with attestation of expense ratio.
- Qualifying income is the 12 month average from the total number of 1099's minus the expense factor from the method chosen above
- YTD earnings must be documented to support the ongoing receipt of income showing on the 1099s by:
    - Checks or a single check stub(s) with YTD totals if available, or

- Bank statements (YTD)
  - The YTD earnings from the total of check stubs or the tally of deposits from bank statements must be within 10% or greater than prior year earnings.
- 4506C to be executed to validate 1099.

Co-Borrower Options: Full documentation from co-borrower who is not self-employed may be used to supplement qualifying income. Follow normal full documentation requirements from FNMA.

1 Year Tax Return

Analyzing Self-Employed Borrower's Income Tax Returns

The tax returns for the self-employed borrower's business must be analyzed to ensure the business' financial strength and to confirm that it will continue to generate the income the borrower needs to qualify for the requested loan.

Income Averaging

Self-employment income or commission income is determined by averaging the income from the tax returns including all schedules and attachments. Income from the year-to-date P & L statement may be included in the income calculation if consistent with the previous years' earnings.

Deductible Expenses

Deductible expenses for the business that are attributable to non-cash expenses are "depreciation", "depletion" and "amortization". These non-cash expenses may be added back to the net income / loss for qualifying purposes. Depreciation is a deduction for the decline in value of an asset such as real or personal property and is not an out of pocket expense. (Note: For IRS Form 1065 and 1120S, depreciation is taken from the first page of the return and not from Form 8825.) Depletion is a deduction for the useful life of a natural resource and is not an out-of-pocket expense. Amortization is an intangible asset, such as a copyright or patent over its useful life, which may include start-up costs. Amortization is not an out-of-pocket expense.

Required Documentation

Source of Income	Receipt History	Continuation Period	Required Verification	Calculation method
Sole Proprietor	Two (2) Years	Likely to Continue	• Signed 1040's, including all schedules for most recent year AND • Current YTD P&L with bank statements for the three (3) preceding months	1040 Schedule C Net income / loss, plus non-cash expenses.
General Partnership	Two (2) Years	Likely to Continue	• Signed 1040's & 1065's & K-1's including all schedules for most recent year AND • Current YTD P & L with bank statements for the three (3) preceding months	Income average using 1040, Schedule E and 1065 borrower's percentage of ownership.
Limited Partership	Two (2) Years	Likely to Continue	<u>If < 25% Ownership:</u> • Signed 1040's & K1's, including all schedules for most recent year AND • Current Profit & Loss with bank statements for the three (3) preceding months <u>If > 25% ownership</u> • Signed 1040's, & 1065's & K-1's, including all schedules for most recent year AND • Current YTD P & L with bank statements for the three (3) preceding months	Income average using 1040 and K1.
S Corporation	Two (2) Years	Likely to Continue	• Signed 1040's, & 1120-S, including all schedules for most recent two (2) years AND • Current YTD P & L with bank statements for the three (3) preceding months	Income average using 1040's and 1120-S.
Corporation	Two (2) Years	Likely to Continue	• Current pay stub reflecting year-to-date earnings AND • Signed 1040's & 1120's, including all schedules for most recent year, AND • YTD P & L with bank statements for the three (3) preceding months	Average income using 1040's and income from 1120's based on borrower's percentage owned.

*Current, signed P&L is only required when tax returns will only be required after the first quarter of the current year has passed. Example: If tax returns are from 2021 and 2022, the

P&L would not be needed unless loan application is dated after March 31 or the loan closes after April 30.
*Fully executed 4506c for both personal and business tax returns is required to be obtained. 4506c for personal tax returns is required to be processed for tax returns being used to qualify.

Bridging the Gap

The following is required when the most recent year's tax returns are not available.

Prior to April 15th	1. Previous year tax returns; AND 2. Year-end P&L statement covering 12 months of the most recent tax year and current tax year thorugh year to date.
After April 15th	1. Previous year tax returns; AND 2. Copy of IRS Extension for FILING; AND 3. Year-end P&L statement covering the most recent tax year and the most recent quarter of the current tax years.

Asset Qualifier

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

Asset Qualifier Income Documentation

- All individuals listed on the asset account(s) must be on the Note and Mortgage.
- Assets considered for this program must be verified with the most recent three (3) months of account statements.
- Assets must be seasoned 120 days.
- Assets held in a inter vivos revocable trust are eligible if the borrower is the settlor/trustee.

Assets Eligible for Qualifier

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

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

Assets Ineligible for Qualifier

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

Supplemental Income Documentation Chart

Source of Income	Receipt History	Continuation Period	Required Documentation	Calculation Method
ALIMONY / CHILD SUPPORT	Last Three (3) Months	Three (3) Years	• Divorce decree or legally binding separation agreement (signed by the courts) specifying the duration of payments no less than three (3) years remaining and amount of the monthly payments; AND • Three (3) months canceled checks; OR • Three (3) months personal bank statements; OR • Three (3) months court payment records.	Use verified monthly income for qualifying.
AUTO ALLOWANCE	Two (2) Years	Likely to Continue	• Letter from employer describing amount and frequency of distribution, and a current pay stub reflecting receipt of monthly allowance for auto loan payments.	After excluding the Applicant's auto payment(s) as a liability within the DTI, only the portion of the auto allowance that exceeds the monthly auto loan payment can be included as income.
BONUS, OVERTIME, SHIFT DIFFERENTIAL	Two (2) Years	Likely to Continue	• VOE verifying earnings for most recent two (2) years & current year-to-date earnings & statement that income source is likely to continue & current pay stub; OR • Statement from employer indicating the income source is likely to continue & W-2 for most recent two (2) years & current pay stub reflecting year-to-date earnings.	Applicant must have history of receiving income for the last year and the trend must be stable or increasing. Income calculation: Average of earnings from most recent year and year-to-date.
CAPITAL GAIN INCOME	Two (2) Years	Likely to Continue	• Signed 1040's for most recent two (2) years, including all schedules; AND • Documentation borrower owns sufficient assets to support continuance of capital gain income.	Two (2) year average of capital gain income from 1040's, Schedule "D".
DISABILITY (PERMANENT)	Evidence of Receipt	Three (3) Years	• Copy of Insurance Award Letter reflecting amount of monthly payment; AND • Most recent bank statements showing automatic deposits matching award letter; OR • Two (2) most recent disability check.	Use verified current monthly disability payment.
DISABILITY (TEMPORARY)	Evidence of Receipt		Original signed letter from borrower's employer stating continuance of employment is guaranteed and disclose date borrower is expected to return to work; AND • Borrower must have returned to work evidenced by a copy of most recent paycheck stub.	Must use borrower's base income after return to work.

Source of Income	Receipt History	Continuation Period	Required Documentation	Calculation Method
EMPLOYMENT BY RELATIVE OR INTERESTED PARTY	Two (2) Years	Likely to Continue	• Six (6) months bank statements verifying monthly deposits equal to the amount of the borrower's net income; AND • VOE verifying most recent two (2) year and current yearto-date earnings; OR • W-2 for most recent two (2) years & current pay stub reflecting year-to-date earnings.	Use verified monthly income.
FOSTER CARE INCOME	Two (2) Years	Likely to Continue	• Letter(s) from agency showing the amount received for each child & Copy of bank statements covering last 24 months reflecting direct deposit (deposit must specifically reference the source of the deposit).	Average of foster care income received the last twelve (12) months.
GUARANTEED INCOME (ANNUITY, LOTTERY)	Two (2) Years	Three (3) Years	• Copy off original agreement showing length of time borrower is eligible to receive payments, & personal bank statement verifying receipt of payment; AND • Signed 1040's for most recent two (2) years; OR • 1099 for most recent two (2) years.	Use the verified current monthly payment.
HOUSING ALLOWANCE	Two (2) Years	Two (2) Years	1. Housing allowances are allowed as additional sources of income only for members of the military or clergy. 2. The amount must be considered reasonable and normal. 3. The borrower must submit proof of historical payments and certification of continuation from the employer. Not applicable for military. 4. In addition, the monthly allotment statement is required for the military and a copy of the employment contract is required for the clergy.	Verified amount of the monthly housing allowance added to the monthly income.
INTEREST AND DIVIDENDS	Two (2) Years	Likely to Continue	• Most recent account statements for all accounts to verify borrower has sufficient funds to support the continuance of interest / dividend income; AND • Signed 1040's for most recent two (2) years, including all schedules.	Average of interest/dividend income received for the most recent two (2) years.
MILITARY INCOME	Evidence of Receipt	Likely to Continue	• Military personnel may be entitled to different types of pay in addition to their base pay. Flight or hazard-pay, rations, clothing allowance, quarters allowance, and proficiency pay may be considered as part of the borrower's stable income.	Use verified monthly amount.

Source of Income	Receipt History	Continuation Period	Required Documentation	Calculation Method
MORTGAGE DIFFERENTIAL PAYMENTS	Evidence of Receipt	Two (2) Years	• An employer may subsidize an employee's mortgage payments by paying all or part of the interest differential between the employee's present and proposed mortgage payments. These payments can be considered as acceptable income if verified in writing by the borrower's employer. The employer must state the amount and duration of the payments.	Add differential payments to gross income. Mortgage differential payments cannot be used to directly offset the mortgage payment, even if the employer pays them directly to the mortgage lender.
NOTE INCOME	Twelve (12) Months	Three (3) Years	• Copy of executed Note; AND • Most recent six (6) months bank statements showing deposits equal to the amount of the monthly Note payments.	Use verified amount of monthly Note payments received by borrower.
PART TIME EMPLOYMENT	Two (2) Years	Likely to Continue	• VOE verifying earnings for most recent two (2) years; AND • Current paycheck stub; OR • W-2 for most recent two (2) years & current pay stub reflecting year-to-date earnings.	Income calculation is based on type of employment. Employment must have been uninterrupted for the last year.
PUBLIC ASSISTANCE	Two (2) Years	Three (3) Years	• Letter from the paying agency confirming the amount, frequency, & duration of payments; AND • Copies of bank statements for	Use monthly aide received.
RENTAL INCOME	Refer to "Rental Income Requirements" later in this Section.			
RETIREMENT AND PENSION	Evidence of Receipt	Two (2) Years	• Copy of Retirement/Pension Award Letter reflecting amount of monthly payment; AND • Most recent bank statement showing automatic deposit (deposit must specifically reference the source of the deposit); OR • 1099 for the most recent year.	Use verified current monthly payment.
SEASONAL JOB	Two (2) Years	Likely to Continue	• VOE verifying earnings for most recent two (2) years and current year-to-date; AND • W-2 Forms for most recent two (2) years; AND • Most recent pay stub.	Average of income for most recent two (2) years. Seasonal job must have been uninterrupted for the most recent two (2) years.
SECOND JOB	Evidence of Receipt	Likely to Continue	• VOE verifying earnings for most recent two (2) years & current pay stub; OR • W-2 for most recent two (2) years & current pay stub reflecting year-to-date earnings.	Average of most recent year's W-2 and current yearto-date earnings. Second job must have been uninterrupted for the past year.

Source of Income	Receipt History	Continuation Period	Required Documentation	Calculation Method
SOCIAL SECURITY	Evidence of Receipt	Likely to Continue	• Current Award letter; AND • Most recent bank statement showing automatic deposit (deposit must specifically reference the source of the deposit); OR • 1099 for the most recent year.	Use verified current monthly income.
SUPPLEMENTAL (DEPENDENT'S) SOCIAL SECURITY	Two (2) Years	Three (3) Years	• Current Award letter; AND • Most recent bank statement showing automatic deposit (deposit must specifically reference the source of the deposit); OR • 1099 for the most recent year.	Use verified current monthly income. Dependent's age must be disclosed on 1003 and proof of dependent's age will be required.
TEMPORARY EMPLOYMENT	Two (2) Years	Likely to continue	• VOE verifying earnings for most recent two (2) year's through current year-to-date & current pay stub; OR • W-2 or 1099 for most recent two (2) years, & current pay stub reflecting year-to-date earnings.	Average of income for most recent two (2) years and current year-to-date earnings (two (2) year history must be uninterrupted).
TIPS AND GRATUITIES	Two (2) Years	Likely to Continue	• VOE verifying tips and gratuities for most recent two (2) years & current pay stub reflecting year-to-date earnings; OR • W-2 for most recent two (2) year & current pay stub reflecting year-to-date earnings.	Average of tips and gratuities for most recent year and current yearto-date. Monthly average is added to the borrower's gross income.
TRUST INCOME	Two (2) Years	Likely to Continue	• Copy of Trust Agreement or statement from Trustee confirming trust is irrevocable, the amount, frequency, and duration of payments; AND • Signed 1040's, all schedules for most recent two (2) years	Average of trust income from most recent two (2) years' 1040's. The assets must be fixed; liquid assets with no limitation on withdrawals will not be considered as a source of income.
UNEMPLOYMENT COMPENSATION	Two (2) Years	Seasonally Employed and Reasonably Predicted	• Signed 1040's, all schedules for most recent two (2) years; AND • Most recent bank statement supporting deposit.	Average income for most recent two (2) years. Borrower must receive as a regular part of his or her income.
UNION MEMBERS	Two (2) Years	Likely to Continue	Union members may hold several jobs during a year. • VOE(s) verifying earnings for most recent two (2) years through current year-to-date & current pay stub; OR • W-2 (S) for most recent two (2) years & current pay stub reflecting year-to-date earnings. NOTE: If current year-to-date earnings are not available, the borrower's most recent six (6) months bank statements must be obtained to support earnings.	Average income for most recent year and current year-to-date earnings. A stable earnings trend must be established.

Source of Income	Receipt History	Continuation Period	Required Documentation	Calculation Method
VA BENEFITS	Two (2) Years	Three (3) Years	• Award Letters covering most recent two (2) years; AND • Most recent bank statement reflecting direct deposit (deposit must specifically reference the source of the deposit). NOTE: Education Benefits are not acceptable income.	Average of income received for most recent two (2) years, or current income, whichever is lower.

Rental Income Requirements

Documentation:

- Current rental / lease agreements; AND
- Complete Schedule of Real Estate Owned; AND
- Signed Schedule E for most recent two (2) years.
- Documentation of timely receipt for the prior two (2) months rental payments.

NOTE: If the borrower owns any 5+ units / apartments, the income figure will be taken from Schedule E.

Rental Income from Departure Residence (10.17.23)

Documentation:

- Copy of fully executed lease agreement
- Documentation of receipt of security deposit and first month rent
- Rental income is 75% of the lease amount

Rental Income from Subject Property-Purchase Only (10.17.23)

Documentation:

- Appraisal on 1025 or if ADU 1007 rent schedule
- If leased, provide lease with receipt of deposit and first month rent.
- Rent to be used is 75% of the lesser of the market rent or actual rent.
- Rent can only be used to offset the housing payment and cannot be more than the housing payment.

Property Eligibility

Limitations on Financed Properties

- Max 20 financed properties
- Champions Funding LLC’s exposure to a single borrower shall not exceed $10,000,000 in current UPB or ten (10) properties

Appraisals

Appraisers are required to use current appraisal report forms that are acceptable to Fannie Mae and/or Freddie Mac. The following appraisal report forms should be used, when applicable:

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

*Site condominiums should be completed on the FNMA Form 1073 if there are attached units in the project. If all units are detached, appraisal can be completed on FNMA Form 1004.

Appraisal Requirements

Champions Funding LLC requires a complete original summary appraisal report on each property. Lender does not accept limited appraisal reports or evaluations. Each appraisal must meet FNMA appraisal standards and conform to the Uniform Standards of Professional Appraisal Practice (USPAP) adopted by the Appraisal Standards Board of the Appraisal Foundation. The appraisal must be in computerized and include an original or digital signature from the licensed appraiser. The appraiser must explain any inconsistencies or discrepancies noted in the appraisal report. The appraisal must build to a logical conclusion of value.

Transferred Appraisals

Champions LLC will accept a transferred appraisal with the following requirements:

- The appraisal must have been completed ay an Appraisal Management Company (AMC).
- Appraisal must be less than 120 days old at note date.
- Original lender to provide a signed/dated appraisal transfer letter on their letterhead stating the following:
  - Letter must transfer ownership and rights for the specific appraisal to Champions Funding LLC.
  - Letter to reference the borrower's name and subject property address.
  - Letter must include lender certification that the appraisal complies with Federal, State, and Freddie Mac Appraisal Independence Requirements (AIR).
  - Lender certification that the appraisal was ordered within TRID compliance*.
- Champions Funding LLC must receive confirmation of the borrower's receipt of the appraisal at least 3 business days prior to closing.
- Provide Champions Funding LLC with a copy of the appraisal invoice.

*Alternatively, the original lender's 1003, Loan Estimate, and Intent to Proceed may be provided to validate appraisal was ordered within TRID compliance.

Age of Appraisal Report

If the appraisal will be more than 120 days but less than 12 months old at funding, the original appraiser must provide a 1004d Recert of Value with photos.

If the appraisal will be more than 12 months old as of the date of funding, a full new appraisal report completed by a licensed or certified appraiser is required.

Second Appraisal

A Second Appraisal from a Champions Funding approved AMC is required when any of the following conditions exist. When a second appraisal is provided, the transactions "Appraised Value" will be the lower of the two appraisals. The second appraisal must be from a different appraiser than the first appraisal.

- The transaction is a flip as defined in the Property Flipping section of this guide (unless otherwise exempt)
- As required under the Appraisal Review Products section of this guide
- If appraisal has material deficiencies

Appraisal Review Requirements

A Desk Appraisal is required on all loans.

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

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

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

Minimum Square Footage

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

Rural Property

Rural properties are eligible for financing but limited to a max LTV of 75%

<u>A property is defined as rural if all of the following conditions exist:</u>

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

Escrow Holdbacks

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

Ineligible Property Types

- Vacant land or land development properties
- Rural
- Properties not readily accessible by roads that meet local standards
- Properties not suitable for year-round occupancy regardless of location
- Agricultural use properties (crops, lumber, animals of any kind)
- Working Farms or Ranches (crops, cattle, horse, dairy, etc.)

- Manufactured, Mobile
- Co-op/timeshare
- Condo Cooperative share loans
- Boarding houses or bed/breakfast properties
- Properties with zoning violations
- Dome, Earth berm homes, or geodesic homes
- Assisted living facilities
- Homes on Indian reservations, Indian Leased Land
- Hawaii properties located in lava zones 1 and/or 2
- Houseboats
- Log homes
- No truncating allowed
- Properties used for the cultivation, distribution, manufacture, or sale of marijuana.
- Appraised condition rating of C5, or C6
- Non-Warrantable Condos
- Condotels
- Community Land Trust
- Non-Residential (Industrial, Commercial, etc.)
- Own your Own Apartments
- Economic life of property is less than term of loan
- Properties with no permanent heat source *except for areas where not required by code
- Properties zoned: Industrial, manufacturing, exclusive farm use (EFU), forest commercial (FC)
- Properties with deferred maintenance, deterioration, or structural damage that may seriously affect the structural integrity or pose a health and safety hazard to the occupant(s). Properties that are condemned or deemed uninhabitable by local municipalities. Properties displaying significant disrepair that it is prohibitive and not feasible to restore the structure to a habitable condition

Leasehold Properties

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

Documentation must be provided to confirm Leaseholds meet all FNMA eligibility requirements (i.e. term of lease to exceed maturity date of the loan transaction, product types).

Mixed-Use Properties

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

The following special eligibility criteria must be met:

- The property must be a one-unit dwelling that the borrower occupies as a principal residence.
- The borrower must be both the owner and operator of the business.
- The property must be primarily residential in nature.
- The dwelling may not be modified in a manner that has an adverse impact on its marketability as a residential property.

The appraisal requirements for mixed-use properties must:

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

Properties with C4 Condition Rating

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

- Appraisal does not reflect any deferred maintenance.
- Appraiser notes that there are no physical deficiencies or adverse conditions.
- Photos do not reveal any physical deficiencies with property or that any part of the home is in disrepair such as graffiti, interior/exterior peeling paint, possible water stains, etc.
- There are no active renovations that have not been completed. Examples include painting, floor installation, etc.
- If any renovations need to be completed, a 1004D will be required, regardless if the appraisal is "subject to" or "as is".
- There are no manufactured/mobile homes on the property.
- Outbuildings and swimming pools are in good condition and do not appear to be a potential health/safety issue even if given no value.
- If property has an ADU:
    - ADU must be legally zoned,
    - Appraisal must have at least one closed sales comp with an ADU,
    - ADU must be in same or better condition than main dwelling, and
    - Appraisal must be reviewed and C4 condition rating approved by credit risk.

Multiple Parcels
A property that consists of two or more parcels of land with one legal description reflected on the title policy is acceptable collateral. The appraised value must be based on all parcels of land. All existing parcels must be contiguous and encumbered by the subject loan. The appraisal should include comparable sales similar to the subject property. Additional parcels with no improvements must be valued as excess land only. The mortgage must include all parcels as collateral.

Site Area Maximum Acreage
Acreage over 10 acres requires max LTV 80%

Site Utilities
Gas, electric, and water should all be on at the time of appraisal inspection.

The minimum requirements for water sources, sewers, and electricity may include:

- Public water, private wells, shared wells with a recorded agreement, or common stock in a private water company with a recorded water stock certificate.
    - Cistern water is acceptable on a case-by-case basis. The appraiser must provide recent comparable sales of properties that use cistern water that are in close proximity to the subject property. An internal appraisal review is required.
- Public sewer or private septic systems (cesspools).
    - Private septic systems (cesspools) must be typical for the area and supported by comparable sales with similar septic systems.
- Public electricity only. Properties relying on solar systems or generators for electricity except as backup systems are not allowed.

Private Roads
A road maintenance agreement is required for private road access for properties not located in a PUD. Charges for maintenance of private roads are considered assessments and should be included in the debt-to-income calculation. If property is located in a PUD or condo project, the CCRs or Declaration of Condo should be obtained.

Ingress and Egress

A property that is land locked is not allowed and private road access must have easements of record allowing access to and from the subject property to a public street (i.e.: ingress and egress) and must be insurable by the title insurance company.

Zoning Classification
The appraisal report should contain a statement indicating whether the site's improvements represent a legal use of land. Loans secured by property with improvements that are not legally zoned are not acceptable.

A one-to-four (1-4) unit property that represents a legal, but non-conforming use of the land must include the appraiser's analysis regarding any adverse effect(s) that the non-conforming use has on the property's value and marketability and comment on the highest and best use. The appraiser must also comment on whether or not the property could be rebuilt to current status if destroyed.

If there is no zoning, the highest and best use must be marked "Yes".

Improvements

Heat Source

The subject property must have an acceptable heating source based on local health and safety codes. A permanent ventilated source of heating is required except in areas where heating is not required.
grade areas, including the room count, separately and make appropriate adjustments for them in the Sales Comparison Analysis Section.

Remaining Economic Life

The estimated remaining economic life of the property must be included, when the Cost Approach is completed. The estimated remaining economic life of the subject property must be no less than the term of the new loan.

Property Condition

The appraiser must report the condition of the improvement n factual terms. Items rated less than average (inferior) in competing properties of the subject's market area generally may result in buyer resistance. The appraiser must comment on these items, the reasons for such ratings and how they affect the marketability and value of the subject property. Any property condition rating that is less than average must be properly conditioned and brought to average or better condition prior to closing. See Properties with a C4 Condition Rating section above. C5 and C6 properties are ineligible.

Work In Progress

Any work in progress must be completed and a Satisfactory Certificate of Completion (FNMA Form 1004D) with photos must be included in the loan file.

Minor or Cosmetic Deferred Maintenance

Deferred maintenance items that are considered minor and cosmetic and do not affect the safety, structural integrity, mechanical systems, or habitability of the improvement may not need to be repaired. Minor cosmetic items may include as a non-exhaustive list of examples: interior or exterior painting, worn carpet, worn linoleum, minor patching, replacement of fixtures, minor clean up items, or minor landscaping. While these items are not required to be cured or repaired, a cost to cure must be established on the appraisal or with a contractor's bid.

The total cost of the repairs may not exceed the greater of $5,000 or 3.0% of the property's value or they may need to be completed.
*C4 properties may require minor and/or cosmetic deferred maintenance to be completed.

Health and Safety Issues

All items that have been identified as potential health and safety issues by the Appraiser or Champions Funding LLC must be satisfactorily addressed or resolved. A Satisfactory Certificate of Completion (FNMA Form 1004) including photos of the repaired items prior to closing is required.

Health and safety issues may include as a non-exhaustive list of examples; a broken window, empty pool without appropriate fencing, security bars not equipped with safety release latches, upper-level doors with no balcony, missing railings, broken steps, missing handrails on steps / stairs consisting of six (6) or more steps, major electrical, and plumbing repairs.

SECURITY BARS

For health and safety reasons, a property with security bars on the windows and/or doors should be equipped with safety release latches. The appraiser must comment whether or not the security bars have safety release latches. A property that has a minimum of three (3) unobstructed exits will not require safety release latches on the security bars, unless required by the local municipality.

Structural Deferred Maintenance

Structural items are not covered in the cosmetic rule. Structural items can be roofing, internal plumbing, electrical, or anything that affects the "bone structure" of the house. Items like termite damage, wood rot, roof leaks, broken windows, door damage, gross ceiling or wall damage, unstable or non-level floors, foundation problems, basement leaks, or major exterior wall problems are further examples of structural deferred maintenance.

Properties with structural damage will not be acceptable unless repaired. Structural concerns require a satisfactory structural report. The repair items must be corrected and a Satisfactory Certificate of Completion (FNMA Form 1004D) including photos of the repaired items prior to closing is required.

In the event work is completed by a third-party contractor, appropriately licensed to complete the work required, a signed statement of work and pictures showing the completed work to document the satisfaction may be considered. File should document the contractor is paid for said work or can pay through the Closing.

Value Conclusion

The value conclusion must be well supported and documented. All approaches to value must be reconciled except on properties where certain approaches to value may not be applicable.

Flip Transactions

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

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

The following additional requirements apply:

- Second appraisal required from an Approved AMC.
- Second appraisal must be dated prior to the loan consummation/note date.
- Property seller on the purchase contract must be the owner of record.
- Increases in value should be documented with commentary from the appraiser and recent comparable sales.
- Sufficient documentation to validate actual cost to construct or renovate (e.g., purchase contracts, plans and specifications, 12 months of receipts, invoices, lien waivers, etc.).

Disaster Areas

The following guidelines apply to properties located in FEMA declared disaster areas, as identified by reviewing the FEMA web site at http://www.fema.gov/news/disasters.fema. In addition, when there is knowledge of an adverse event occurring near and around the subject property location, such as earthquakes, floods, tornadoes, or wildfires, additional due diligence should be used to determine if the disaster guidelines should be followed.
Guidelines for disaster areas should be followed for 120 days from the disaster declaration date as published by FEMA.

Appraisals Completed Prior to Disaster Event

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

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

Appraisals Completed After Disaster Event

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

Condominiums

General Project Criteria

- Project must meet FNMA warrantable project requirements.
- Project has been created and exists in full compliance with applicable local jurisdiction, State and all other applicable laws and regulations
- Project meets all FNMA Insurance requirements for property, liability and fidelity coverage
- Confirmation the project documents do not give a unit owner or any other party priority over the rights of the 1st mortgagee
- Unit must be at least 500 sq ft.
- No more than 15% of the total units in a project may be 60 days or more past due on their HOA dues.
- No single entity, the same individual, investor group, partnership, or corporation may own more than 20% of the total units in the project. For projects with 1-4 total units, single entity ownership may not exceed 1 unit. For 5–20-unit projects, single entity ownership may not exceed 2 units.
- No more than 35% of the total square footage of the project may be used for commercial purposes.

- Mortgagee may not be responsible for more than the greater of 6 months or the maximum amount permitted under applicable state law of delinquent HOA dues. For condos in Florida, the first mortgagee's liability for dues assessed prior to its acquisition of title is limited to the lesser of 12 months' assessments or 1% of the original mortgage debt.
- All facilities related to the project must be owned by the unit owners or the HOA cannot be subject to a lease between the unit owners or HOA and another party.

Ineligible Projects

- Any projects with significant deferred maintenance or have received a directive from a regulatory or inspection agency to mark repairs due to unsafe conditions. Significant deferred maintenance includes deficiencies that meet one or more of the following criteria:
    - Full or partial evacuation of the building to complete repairs is required for more than seven days or an unknown period of time
    - The project has deficiencies, defects, substantial damage, or deferred maintenance that
        - is severe enough to affect the safety, soundness, structural integrity, or habitability of the improvements;
        - the improvements need substantial repairs and rehabilitation, including many major components; or
        - impedes the safe and sound functioning of one or more of the building's major structural or mechanical elements, including but not limited to the foundation, roof, load bearing structures, electrical system, HVAC, or plumbing.
- Any condo project identified by FNMA as "Unavailable" by Condo Project Manager(CPM), including projects with an annual budget allocating less than 10% to replacement reserves.
- Multi-family units where a single deed conveys ownership of more than one, or all of the units.
- A common-interest apartment
    - A project in which individuals have an undivided interest in a residential apartment building and land and have the right of exclusive occupancy of a specific apartment unit in the building.
    - The project or building is often owned by several owners as tenants-in-common or by a homeowners' association.
- Fragmented or segmented ownership
    - Ownership is limited to a specific period on a recurring basis (i.e., timeshare, quarter share).
- Any project where the developer (or its affiliates) owns the Common and/or Limited Elements and leases the elements back to the HOA.
- Any project that has non-conforming zoning (can't be rebuilt to current density).

- Any project that requires Private Transfer Fees as a part of the transaction, and those fees do not benefit the association.
- A project subject to the rules and regulations of the US Securities and Exchange Commission.
- Timeshare or projects that restrict the owner's ability to occupy the unit.
- Houseboat project.
- Manufactured home projects.
- Assisted living facilities or any project where the unit owner's contract includes a lifetime commitment from the facility to care for the unit owner regardless of future health or housing needs.
- Projects with non-incidental business operations owned or operated by the homeowners' association (such as a restaurant, spa, health club, etc.)
- Projects with units used for "live-work"
- Projects managed and operated as a hotel or motel (condotel)
- Projects with mandatory memberships
- New Project where less than 50% of total units have been sold or are under bona-fide contract.
- Project in litigation, arbitration, mediation or other dispute regarding safety, soundness or habitability.

Projects Eligible for Limited Review

Limited Review Eligible Transactions-Attached Units in Established Condo Projects	
Occupancy Type	**Max LTV/CLTV**
Primary (Outside of Florida)	85%
Primary (Florida)	75%
Second Home (Outside of Florida)	75%
Second Home (Florida)	70%

New or recently converted projects are not eligible for limited review.

Projects Eligible for Review Waiver

- 2–4-unit projects
- Detached units in a new or established condo project

Condominium Insurance Requirements

Coverage

- Borrower must carry HO-6 coverage for replacement of such items as flooring, wall covering, cabinets, fixtures, built-ins, and any improvements made to the unit.
- Project meets all Fannie Mae insurance requirements for property, liability, and fidelity coverage.

Fidelity of Employee Dishonesty Insurance for Condominiums

Fidelity bond coverage is required for condominium projects over 20 units (or per state requirements). The insurance coverage must be at least equal to the greater of 3 months HOA dues or reserves or minimum required by state law. Coverage is not required when the calculated amount is $5,000 or less.

HO-6

If the master or blanket policy does not provide interior unit coverage (replacement of improvements and betterment coverage to cover any improvements that the borrower may have made) the borrower must obtain an HO-6 Policy or "walls-in" coverage. The HO-6 insurance policy must provide coverage in an amount as established by the HO-6 insurer. The maximum deductible amount must be no greater than 5% of the face amount of the policy.

Flood Insurance

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

Solar Panels

Champions Funding LLC will accept properties containing solar panels under the following circumstances.

The ownership and debt financing structures commonly found with solar panels are key to determining whether the panels are third-party owned, personal property of the homeowner, or a fixture to the real estate. Common ownership or financing structures include:

- borrower-owned panels,
- leasing agreements,
- separately financed solar panels (where the panels serve as collateral for debt distinct from any existing mortgage); or
- power purchase agreements

Property with solar panels are eligible for financing. If the borrower is, or will be, the owner of the solar panels (meaning the panels were a cash purchase, were included in the home purchase price, were otherwise financed and repaid in full, or are secured by the existing first mortgage), our standard requirements apply (for example, appraisal, insurance, and title).

Properties with solar panels and other energy efficient items financed with a PACE loan are not eligible if the PACE loan is not paid in full prior to or at closing.

If the solar panels are financed and collateralized – the solar panels are collateral for the separate debt used to purchase the panels, but they are a fixture to the real estate because a UCC fixture filing has been filed for the panels in the real estate records, then the following must be done:

- Obtain and review the credit report, title report, appraisal, and/or UCC fixture filing, promissory note, and related security agreement that reflects the terms of the secured loan.
- Include the debt obligation in the DTI ratio calculation.
- Provided the panels cannot be repossessed for default on the financing terms, appraiser can consider the solar panels in the appraised value of the property.
- Include the solar panels in "other debt" secured by the real estate in the CLTV ratio calculation because a UCC fixture filing is of record in the land records.
- If a UCC fixture filing is in the land records, it must be subordinated to our new mortgage loan. The UCC lien cannot be terminated and refiled after closing.

If the solar panels are financed and collateralized- the solar panels are reported to be collateral for separate non-mortgage debt used to purchase the panels, but do not appear on the title report, then the following must be done:

- Obtain and review the credit report, title report, appraisal, and/or UCC fixture filing, promissory note, and related security agreement that reflects the terms of the secured loan.
- Include the debt obligation in the DTI ratio calculation.
- Appraiser cannot provide contributory value of the solar panels towards the appraised value as they are collateral for another debt.
- Solar panels are not included in the LTV/CLTV ratio calculation because the security agreement/UCC financing statement treat the panels as personal property not affixed to the home.

If the solar panels are leased or covered by a Power Purchase Agreement (PPA):

- Obtain and review copies of the lease or power purchase agreement.
- The monthly lease payment must be included in the DTI ratio calculation (if applicable) unless the lease is structured to:
    - Provide delivery of a specific amount of energy at a fixed payment during a given period, and

    - Have a production guarantee that compensates the borrower on a prorated basis in the event the solar panels fail to meet the energy output required for in the lease for that period.
- Payments under PPA where the payment is calculated solely based on the energy produced may be excluded from the DTI ratio.
- The value of the solar panels cannot be included in the appraised value of the property
- The value of the solar panels must not be included in the LTV ratio calculation, even if a precautionary UCC filing is recorded because the documented lease or power purchase agreement status takes priority.
    - A "precautionary" UCC filing is one that lessors often file to put third parties on notice of their claimed ownership interest in the property described in it.
    - When the only property described in the UCC filing as collateral is the solar equipment covered by the lease or power purchase agreement, and not the home or underlying land, such a precautionary UCC filing is acceptable (and a minor impediment to title), as long as the loan is underwritten in accordance with this topic.
- The value of the solar panels must not be included in other debt secured by real estate in the CLTV ratio calculation because the documented lease or power purchase agreement status takes priority.
- The property must maintain access to an alternate source of electric power that meets community standards.
- The lease or power purchase agreement must indicate that:
    - Any damage that occurs as a result of installation, malfunction, manufacturing defect, or the removal of the solar panels is the responsibility of the owner of the equipment and the owner must be obligated to repair the damage and return the improvements to their original or prior condition (for example, sound and watertight conditions that are architecturally consistent with the home);
    - The owner of the solar panels agrees not to be named loss payee (or named insured) on the property owner's property insurance policy covering the residential structure on which the panels are attached. As an alternative to this requirement, the lender may verify that the owner of the solar panels is not a named loss payee (or named insured) on the property owner's property insurance policy; and
    - In the event of foreclosure, the lender or assignee has the discretion to:
        - Terminate the lease/agreement and require the third-party owner to remove the equipment;
        - Become, without payment of any transfer or similar fee, the beneficiary of the borrower's lease/agreement with the third party; or
        - Enter into a new lease/agreement with the third party, under terms no less favorable than the prior owner.