The ONE Program Guide

Available exclusively at:

Interfirst Mortgage Company

Underwriting Guidelines Version 1.0

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Interfirst

CHAPTER 1: INTRODUCTION

Interfirst takes a common-sense approach to credit policy in order to simplify the process of underwriting. As a result, Interfirst is aware that not every loan scenario will be specifically addressed within these guidelines and may deserve additional consideration. Interfirst originates 1–4-unit loans in compliance with the Dodd-Frank Act Ability to Repay (ATR) provisions, where applicable. Additionally, the ONE Series offers loan products that may fall outside of Qualified Mortgage (QM) guidelines and may represent a higher (or lower) level of risk. As a result, Interfirst will only originate loans to borrowers that, in Interfirst's sole opinion, have a reasonable, good-faith determination that the consumer has a reasonable willingness and ability to repay the loan. Interfirst does this by verifying information provided by the loan applicant(s), independently verified third parties and/or third-party records that provide reasonably reliable evidence of income or assets.

Each applicant has a unique situation and therefore, is weighed on its own merits. Interfirst's stated objective is to facilitate the financing needs of creditworthy borrowers while mitigating risk for the enterprise.

If a loan is subject to the ATR rules under the Federal Truth in Lending Act (TILA), Interfirst will consider the following eight underwriting factors:

- The consumer's current or reasonably expected income or assets, other than the value of the dwelling, including any real property attached to the dwelling, that secures the loan.
- The consumer's current employment status, if Interfirst relies on income from the consumer's current employment in determining repayment ability.
- The consumer's monthly payment for the covered transaction, calculated in accordance with these guidelines.
- The consumer's monthly payment on any simultaneous loan that Interfirst knows or has reason to know will be made, calculated in accordance with these guidelines.
- The consumer's monthly payment for mortgage-related obligations.
- The consumer's current debt obligations, alimony & child support.
- The consumer's monthly debt-to-income ratio or residual income in accordance with these guidelines.
- The consumer's credit history.

Certain loans may be exempt from TILA or otherwise exempt from the ATR rule. In those instances, Interfirst may originate a loan which does not adhere to the formal requirements of the ATR rule.

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CHAPTER 2: PROGRAMS

2.1 PROGRAM OVERVIEW

The ONE program has been crafted for borrowers seeking financing for non-owner or investment properties (business purpose loans). This program option is specifically designed for business purposes, 1–4-unit commercial loans.

- ONE Debt service coverage ratio ≥ 1.0 (DSCR)

When these guidelines are silent and where no explicit written instructions to the contrary are provided by Interfirst, Fannie Mae standards apply.

2.2 ELIGIBLE PRODUCTS

Full Amortization

Qualifying ratios are based on the PITIA payment amortized over the loan term.

Interest-Only

Qualifying ratios are based on the ITIA payment (starting payment).

2.3 MAXIMUM LTV/CLTV

Maximum CLTV = Maximum LTV. See the ONE Matrix for program specific LTV/CLTV restrictions.

2.4 INTERESTED PARTY CONTRIBUTIONS/SELLER CONCESSIONS

Maximum Contributions		
Occupancy	**LTV**	**Contribution**
Investment/NOO	All	2%

- Max percentage calculated off lesser of sales price or appraised value.

All interested party contributions must be disclosed in the sales contract and appraisal and must be compliant with applicable HUD, federal, state and local law.

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

Interested party contributions may only be used for closing costs, prepaid expenses, discount points and other financing concessions. They may never be applied to any portion of the down payment or contributed to the borrower's financial reserves requirements. If an interested party contribution is present, both the appraised value and sales price must be reduced by the concession amount that exceeds the limits above.

2.5 AGE OF LOAN DOCUMENTATION

All loan documentation must be dated within 120 days of the note date. The appraisal should be dated no more than 180 days prior to the note date.

2.6 PROPERTY LISTING SEASONING

For all refinance transactions, the property must be delisted prior to loan application. For cash-out transactions where the subject property was listed for sale within three months prior to the loan application, the underwriter may require an LOE to ascertain whether the borrower intends to retain the property for the foreseeable future and the motivational factors for the sudden delisting. Additional diligence is required to ensure the cash-out refinance is not being used as a "bridge loan".

2.7 PREPAYMENT PENALTY

Prepayment penalties are eligible for investment property/non-owner-occupied transactions and must comply with the terms and limitations of the applicable state and federal law(s).

2.8 STATE AND FEDERAL HIGH-COST LOANS

Not eligible.

2.9 ASSUMABILITY

Fixed rate notes are not assumable.

CHAPTER 3: INSURANCE

3.1 HAZARD INSURANCE

The subject property must be protected at all times (including when vacant) against loss or damage from fire and other hazards with a Homeowners/Master Casualty Policy. Hazard insurance is required for all 1-4 units attached and detached properties. An individual Homeowners policy is acceptable for 2- to 4-unit properties.

The insurance must be in force at the time of closing and the loan file must evidence the existence of insurance for the subject property and project (where applicable) prior to the close.

The insured must be in the name of the borrowing entity. The mailing address cannot be the property address.

3.1.1 ATTACHED PUD SPECIFIC HAZARD INSURANCE

The homeowner may provide insurance protection from either an individual insurance policy or a master insurance policy provided by the HOA using one of the following options:

- A master policy provided by the HOA that includes full insurance protection for the individual (both exterior & walls-in) as well as the common areas.
- A master policy provided by the HOA that includes coverage for the exterior of the unit as well as the common areas, the homeowner must then provide a walls-in policy; or
- A master policy provided by the HOA that covers only the common areas. The homeowner must then provide coverage for both the exterior and interior (walls-in) of the unit.

Either the master policy or the individual unit policy must provide adequate liability coverage in addition to structural coverage.

3.1.2 AMOUNT OF COVERAGE

The amount of coverage must be at least equal to:

- 100% of the insurable value of the improvements as established by the insurer or coverage amounts as determined by Interfirst's calculation from a full appraisal; or
- The unpaid principal balance of the mortgage if it at least equals the minimum amount (80% of the insurable value of the improvements) required to compensate for damage or loss on a replacement cost basis. If it does not, then coverage that does provide the minimum required amount must be obtained.

Interfirst will not accept hazard insurance policies that limit or exclude from coverage windstorm, hurricane, or hail included under an extended coverage endorsement unless a separate policy or damage, or any other hazard normally included under an extended coverage endorsement unless a separate policy or endorsement is obtained that provides adequate coverage for the limited or excluded peril. The separate policy may come from an insurance pool established by a state to cover the limitations or exclusions.

3.2 FLOOD INSURANCE

Flood insurance is required for any property located within any area designated by FEMA as a Special Flood Hazard Area. This is typically denoted as Flood Zone A or Zone V. Properties located in Flood Zone A or V must be in a community which participates in the FEMA program to be eligible for financing.

3.2.1 FLOOD ZONE DETERMINATION/FLOOD CERTIFICATE

Determination whether a subject property is in a flood zone must be established by a Flood Certificate provided by FEMA. Additionally, the appraisal report should reflect the flood zone.

3.2.2 MINIMUM FLOOD INSURANCE COVERAGE

If the subject property is in a Special Flood Hazard Area (SFHA), flood insurance is required. The minimum amount of flood insurance required for most first mortgages secured by 1-unit properties and individual PUD units is the lower of:

- 100% of the replacement cost of the insurable value of the improvements
- The maximum insurance available from the National Flood Insurance Program
- The unpaid principal balance of the mortgage

When a mortgage loan is secured by a unit in an attached condo project and any part of the building improvements are in an SFHA, Interfirst must verify that the HOA maintains a master policy of flood insurance. The premiums must be paid as a common expense unless indicated otherwise in the table located in the “Requirements for a Unit in a Project Development” Section.

3.3 RENT LOSS INSURANCE

With respect to each Business Purpose Loan, each Mortgaged Property is required to be covered pursuant to the related Mortgage and Mortgage Loan documents, by business interruption insurance that covers a period of not less than six (6) months.

CHAPTER 4: APPRAISAL

4.1 APPRAISAL REQUIREMENTS

A completed appraisal report with full interior/exterior appraisal is required on all loan transactions to assess the adequacy of the property as collateral for the mortgage requested.

The licensed appraiser is required to perform an interior inspection when completing the appraisal report. Appraisers are required to use current appraisal report forms acceptable to Fannie Mae and/or Freddie Mac.

Properties for which the appraisal indicates condition ratings of C5 or C6 or a quality rating of Q6, each as determined under the Uniform Appraisal Dataset guidelines are not eligible.

Transferred appraisals will be considered based on the Appraisal Transfer Policy here.

Loan Amount	Appraisal Requirement
≤ $1.5 million	One full appraisal*
>$1.5 million	Two full appraisals**

*Acceptable CDA or FNMA CU risk score of 2.5 or better (less) is required in addition to appraisal.

**The lower value of the two appraisals will be utilized (ARR/CDA/CU not required). A second appraisal may be required on Flip Transactions.

4.2 APPRAISAL REVIEW

All appraisals will be uploaded to UCDP and SSR reports will be obtained. See below for the specific appraisal review parameters:

- Loan amounts up to $1.5 million
  - Fannie Mae's Collateral Underwriter score of 2.5 or less: no other review necessary.
  - Fannie Mae's Collateral Underwriter score above 2.5: CDA or ARR review is required.
    - If the review value is within 10% of the appraised value, the appraised value is considered acceptable.
    - If the review value is lower by more than 10% of the appraised value, the lower value can be used or a field review can be obtained.
- Loan amounts over $1.5 million
  - A second full appraisal is required. The lower value of the two appraisals will be used.

4.3 APPRAISAL AGE

The appraisal should be dated no more than 120 days prior to the note date. After a 120-day period, a recertification of value is acceptable up to 180 days. After 180 days, a new appraisal report is required.

4.4 ADDITIONAL VALUATION REQUIREMENTS

A Clear Capital CDA (or similar) supporting the appraised value within 10%. If the CDA comes in ≥ 10% below the appraised value, then a field review ordered from a provider approved by Interfirst is required.

If the field review value is within 5% of the appraised value, Interfirst will use the appraised value. If, however, the field review is > 5% below the appraised value, a second appraisal is required. Interfirst will utilize the lower of the two appraised values.

4.5 DISASTER EVENTS

Adverse events that receive a formal disaster declaration issued by local, state, or federal departments of emergency management must follow the procedures listed below. A list of all federally declared disaster areas can be found on the FEMA website.

When an adverse event is occurring in and around the subject property's geographic region and a formal declaration has not yet been made, additional due diligence is required and Interfirst will determine whether the disaster area guidelines should be followed.

4.5.1 APPRAISALS COMPLETED PRIOR TO DISASTER EVENT

A re-inspection of the subject property is required and the file must contain an inspection report and evidence of inspector licensing. The report must:

- ❖ State property is damage-free, and the value & marketability is unaffected.
- ❖ Contain exterior photos of the subject including street view, rear, and front.
- ❖ Interior photos may be required (case-by-case).

For hurricanes and flood disasters, an external-only DAIR is allowed.

4.5.2 APPRAISALS COMPLETED AFTER DISASTER EVENT

When the inspection date of the appraisal is after the incident date, a recertification is not required if the appraisal contains language stating the property is free of damage and the value & marketability is unaffected.

CHAPTER 5: PROPERTY ELIGIBILITY

5.1 MINIMUM PROPERTY STANDARDS

Minimum property standards include but may not be limited to:

- 600 sq ft total gross living area.
- Constructed for year-round use.
- Permanently affixed to a continuous heat source.
- Maximum deferred maintenance cannot exceed $2,000 provided the neglected item is not structural in nature (as noted in the appraisal). Deferred items may be left "as is" if the deficiency does not impact the safety or habitability of the property.
- Accessory Dwelling Units - Allowed as long as they meet Fannie Mae's guidelines

Note: Rental income from ADU cannot be used.

5.2 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 value of the personal property for purposes of calculating the LTV, CLTV, etc.

5.3 INELIGIBLE PROPERTY TYPES

The following property types are ineligible:

- Houseboat.
- Hawaii properties that are located in lava zones ½.
- Co-op.
- Condotel.
- Modular Homes
- Mobile Home.
- Manufactured Home.
- Leasehold Properties.

- Hobby Farm.
- Working farms, ranches, or orchards.
- Mixed-use properties.
- Properties over 10 acres.
- Condominium Conversion.
- Non-Warrantable Condominium.
- Log Homes.
- Raw Land.
- Corporate Properties.
- Earth Homes, Berm Homes, or Basement Homes.
- Environmental Conditions.
- Dwellings with > 4 units.
- Lagoons/Cesspools.
- Churches.
- Timeshares.
- Rooming/Boarding.
- Limited Marketability/Unique Properties.
- Properties located in Lava Zones.
- Postponed Improvements or Proposed Construction.
- Factory Built Housing.
- New Condo projects.
- Title held in life estates.
- Rural Properties.

5.4 PROPERTY FLIPPING

A flip transaction occurs when a property is being sold with a sales price more than 20% above the original acquisition price within 180 days of its acquisition date (measured from the day the seller became the legal owner to the executed purchase agreement on the subject transaction).

Flip transactions must follow these requirements:

- All transactions must be arm's length, with no identity of interest between the buyer and the property seller or other parties participating in the sales transaction.
- Property seller on the purchase contract must be the owner of records.
- Increases in value should be documented in the appraisal with commentary from the appraiser and recent sales comps.
- The property was marketed openly and fairly, through MLS, auction, FSBO or developer marketing.
- No assignments of the contract to another buyer.

A field review is required in the following circumstances:

- Greater than a 20% increase in sales price if the seller acquired the property in the last 90 days.

5.5 OWNERSHIP

Ownership must be fee simple.

5.6 TITLE VESTING

The following forms of vesting may be acceptable:

- Tenants in common.
- Joint tenants.
- Individual names.
- Living trust.
- Corporations.
- LLC.

Note: At least one of the individuals currently vested on title must be included in the new loan transaction.

The following forms of vesting are not acceptable:

- Mixed Vesting

5.7 LIVING TRUST/INTER VIVOS REVOCABLE TRUST

The Living/Inter Vivos revocable trust must comply with the following:

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) who are/are 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 if the income or assets of at least one of the individuals establishing the trust will be used to qualify for the mortgage.

- ❖ The trustee(s) must be named in the trust document to hold the legal title to and manage the property in the trust and the trustee must have explicit power to mortgage the property for the creator(s) of the trust.
- ❖ The title policy must indicate that the title is vested in the trustee(s) of the Inter Vivos trust or such another manner as is customary in the jurisdiction for living trusts.
- ❖ Loan documents are to be executed to ensure full recourse against the underlying creators/applicant(s). The creator/applicant(s) will sign the note individually as guarantor(s).
- ❖ The trust must comply with all applicable state and local laws & regulations.
- ❖ A copy of the trust may be required or, in lieu of the trust documents, a signed attorney's opinion letter may be obtained.

The opinion letter must indicate the trust meets all requirements and must also include:

1. Name of the trust.
2. Date trust was executed.
3. Name(s) and total number of trustee(s).
4. Settler(s) of the trust.
5. Trust is revocable.
6. Whether the trust has been revoked, amended, or modified in any manner.
7. Way vesting will be held.

5.7.1 CORPORATIONS

Vesting in the name of a partnership or corporation is acceptable. The following documentation must be provided.

- ❖ Articles of Incorporation
- ❖ Corporate Bylaws, with ownership breakdown, addendum, or certificate of shares reflecting the total and percentage of ownership for each owner.

- SS-4 Form listing the Tax ID number (Employer Identification Number)
- Certificate of Good Standing

5.7.2 LIMITED LIABILITY COMPANY (LLC)

An LLC is a non-corporate business whose owners actively participate in the organization's management and are protected against personal liability for the organization's debts and obligations. Domestic LLCs whose holdings are limited to the subject property or mortgage loan secured by the subject property are eligible subject to the requirements below:

- LLC must be formed in the same state where the property is located.
- Must be legal in the state in which the LLC is being formed.
- Maximum four members (all members must be US citizens, permanent resident aliens, or non-permanent resident aliens).
- The operating agreement must provide the term of the LLC and the members authorized to encumber the LLC as guarantors.
- All members of the LLC are required to credit qualify for the loan and to guarantee the loan.

LLC documentation requirements:

- Articles of organization.
- Operating agreement.
- Document(s) containing the Tax Identification Number (Employer Identification number).
- Certificate of good standing from the applicable Secretary of State's office.

The LLC must be approved by Interfirst.

5.8 UNPERMITTED ADDITIONS

To include the space in the determination of value, the appraiser must comment that the addition was completed in a workmanlike manner and demonstrate the addition does not have any adverse impact on marketability. Otherwise, the appraiser should make note of the space but not include it in the conclusion of value.

5.9 DEED/RESALE RESTRICTIONS

Interfirst will allow the following deed restrictions:

- Age-related requirements (senior communities must comply with applicable laws).

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Deed restrictions have the following requirements:

- Deed restriction must not restrict the first mortgage holder's legal rights in the event of a default (or cure), foreclosure, or any other default measure.
- Declarations must not contain any provisions that would require the first mortgage holder to send a notice of default or foreclosure to any third party.
- Deed restrictions must not require Interfirst to provide notification to the governing authority of any delinquency or default.
- Must follow Fannie Mae resale restriction appraisal requirements.

5.10 CONDOMINIUMS

Warrantable condos allowed.

CHAPTER 6: WARRANTABLE CONDOMINIUMS

6.1 GENERAL PROJECT CRITERIA

- Project must be in full compliance with all applicable local and state laws & regulations.
- Project documents do not give a unit owner or any other party priority over the rights of the first mortgagee.
- Project meets all FNMA insurance requirements for property, liability, and fidelity coverage.
- Common areas and amenities within the project or subject phase must be complete.

6.2 INELIGIBLE PROJECTS

- Project operated as a condotel (condominium hotel).
- Hotel/Motel conversions.
- Projects operated as a hotel/motel and offer registration services with daily, weekly, or monthly rentals.
- Project in which any unit owner or HOA is a party to a revenue sharing agreement with the developer or other third party.
- Projects with "hotel", "motel", "resort" or "lodge" in the name.
- Resort type projects.
- Timeshares or projects that restrict the owner's ability to occupy the unit.
- Projects that include live/work units.

- Manufactured home projects.
- Assisted living facilities, continued care facilities and life care facilities.
- Multi-family units where a single deed has ownership of more than one of the units.
- Projects where > 50% of the total sq footage in the project is used for non-residential purposes.
- Common interest apartments.
- Projects in litigation (or other disputes)
- Projects with adverse environmental issues involving safety, soundness, or habitability of the subject project.

CHAPTER 7: TRANSACTION TYPES

7.1 PURCHASE MONEY

Proceeds from the mortgage transaction must be used to finance the acquisition of the subject property

7.2 RATE AND TERM REFINANCE

A rate & term refinance transaction is the refinance of an existing mortgage plus any junior lien(s) against the subject property by obtaining a new first mortgage loan secured by the same property. The following transactions may be classified as a Rate & Term:

- Maximum cash-out cannot exceed the lesser of $2,000 or 2% of the balance of the new refinance mortgage loan.
- Paying off the unpaid principal balance of the existing first mortgage (and any subordinate lien(s) used to purchase the property including prepayment penalties) plus closing costs, prepaid items, and points.
- Paying off any equity line of credit seasoned for more than 6 months that has not had draws >$5,000 in the past 6 months.
- Buying out a co-owner or beneficiary pursuant to an agreement is acceptable in its form to Interfirst. A stipulation of settlement and/or divorce decree is acceptable to meet this requirement. The applicant does not need to be a signer on the current note.
- Recoupment of funds expended to purchase a property acquired for cash within the 6 months prior to application date. The closing statement evidencing a cash sale must be provided and evidence of the source of funds

used to purchase must be documented as the applicant's own. Recoupment of gift funds is deemed to be cash-out. Max proceeds not to exceed the applicant's documented investment. The value utilized for LTV calculations will be the lower of the purchase price or appraisal value unless the appraiser can justify and support the increase.

- Recoupment of funds expended to improve the subject property. Improvements must have been completed in the previous 6 months; funds must have been 100% applicants' own. Cash-out amount not to exceed documented improvement costs, otherwise the transaction will be deemed cash-out. Value utilized for LTV calculation is the current appraised value. Acceptable documentation would include copies of invoices for work completed along with proof of payment by the applicant.
- A refinance of a prior cash-out loan regardless of seasoning timeline
- Pay-off of any closed end seconds not used to purchase the subject property as long as either: the second lien is at least 3 months seasoned as determined by the time between the note date of the sub lien and the app date of the new mortgage or the new loan amount is greater than the maximum conforming loan limit.

7.3 CASH-OUT REFINANCE

If the mortgage loan proceeds exceed the payoff of the existing mortgage liens by an amount greater than the lesser of $2000 of the balance of the new mortgage loan balance or if any of the Rate and Term criteria above is not met; then the transaction will be considered cash-out. LTV/CLTV is based upon the appraised value.

There is no seasoning requirement for a cash-out refinance if one of the applicants is an original purchaser. If the appraised value exceeds the purchase price by ≥ 20% and less than 6 months have elapsed from prior note date to application date, appraisal must support the increase in value via detailed commentary. Transactions where the ownership transfers from a trust, LLC, or corporation where the applicant is a 50% or greater owner; are exempt from any waiting period.

ONE programs are designed for investment (commercial) loans that are designated for business purposes. Utilizing proceeds of the loan for any consumer use (personal, family, household, etc.) is prohibited.

Cash-out may be eligible for reserves. (See Reserves section for details.)

Note: An LOE from the borrower disclosing the purpose of the cash-out is required on all cash-out transactions. The purpose of the cash-out should be consistent with what is reflected on the loan application.

7.4 SUBORDINATE FINANCING

- Not allowed above the LTV/CLTV standards in the matrix.

CHAPTER 8: APPLICANT ELIGIBILITY

8.1 PUBLIC RECORD SEARCH

All loans must include a third-party fraud detection report for all borrowers. Report findings should cover standard areas of quality control including:

- Borrower validation.
- SSN verification.
- Property information including other REO.
- All judgments or liens to be paid off before or at closing.

8.2 RESIDENCY

- U.S. citizen (eligible without restrictions).
- Permanent resident alien.
- Non-permanent resident alien.

8.2.1 PERMANENT RESIDENT ALIEN

A permanent resident alien is a non-US citizen authorized to live and work in the US on a permanent basis.

Acceptable evidence of lawful permanent residency must be documented and meet the following criteria:

- I-551 Permanent Resident Card (AKA "Green Card") issued by the Dept. of Homeland Security (DHS) U.S. Citizenship & Immigration Services.
- Applicants must present either an unexpired I-551 card or an unexpired temporary I-551 stamp on an unexpired foreign passport reading "*Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until MM-DD-YY. Employment Authorized.*"

8.3 NON-PERMANENT RESIDENT ALIEN

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A non-permanent resident alien is a non-US citizen authorized to live and work in the U.S. on a temporary basis.

The following visa categories are eligible for financing:

- E-1, E-2, E-3; G-1 through G-5; H-1, H-4; L-1; O-1; TN.

Applicants must have been living and working in the U.S. for at least 2 years, have a valid SSN, and have established credit history. Copies of the borrower's passport and unexpired visa must be obtained. Visa must be current and may not expire for a minimum of 3 years following the close date.

A current (unexpired) Employment Authorization Document (EAD) may be used in lieu of a copy of the Visa. If the EAD will expire within one year from funding, one the following must be provided:

- Prior EAD renewal must be documented, OR
- If there are no prior EAD renewals, the likelihood of renewal must be determined based on the information from the USCIS.

DACA borrowers are not permitted.

8.4 INELGIBLE BORROWER(S)

- Irrevocable trust.
- Individuals possessing diplomatic immunity or otherwise excluded from the U.S. jurisdiction.
- Any material parties to the transaction listed on HUDs Limited Denial of Participation List (LDP) or the OIG List of Excluded Individuals and Entities (LEIE).

CHAPTER 9: CREDIT

9.1 TRADELINE REQUIREMENTS

All borrowers must meet the below:

- Applicants must have at least 2 active tradelines on the credit report.
- At least one tradeline must be seasoned for 24 months.

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To qualify as a valid tradeline:

- ❖ The credit line must be reflected on the borrower's credit report.
- ❖ Tradelines used to qualify may not exceed 0x60x12.
- ❖ An acceptable housing history not reporting on credit may be used as a tradeline on a case-by-case basis.
- ❖ Student loans can be utilized if they are not deferred and are in repayment.

Examples of invalid tradelines:

- ❖ Collection accounts.
- ❖ Authorized user accounts.
- ❖ Credit lines where the borrower is not obligated to make payments.

9.2 CREDIT INQUIRIES

Borrowers are obligated to notify Interfirst of any new extension(s) of credit that takes place from the time of loan application through consummation.

9.3 CREDIT REQUIREMENTS

A U.S. credit report is required for each borrower on the loan using a valid SSN. The credit report should provide merged credit information from the three major bureaus. A report for any applicant containing only two bureaus is acceptable to the extent there is no further information available.

9.4 CREDIT SCORE USED FOR UNDERWRITING

Use the lowest middle score on the file.

If only two scores are available, utilize the lower of the two scores.

9.5 HOUSING HISTORY

Borrowers must have a satisfactory consecutive 12-month mortgage and/or rent payment history in the three years prior to the loan application. Mortgage and rental payments not reflected on the credit report may require verification via an institutional verification of rent or verification of mortgage (or alternative documentation) at the underwriter's sole discretion. Alternative documentation must show the most recent 12-month history and may be in the form of canceled checks, bank statements, mortgage/rental statements, etc. For borrowers who currently own all properties free and clear, there is no housing history requirement.

All housing late payments must be cured at the time of application and remain paid as agreed through closing. Rolling late payments are not considered a single event.

9.5.1 NO HOUSING HISTORY

Borrowers who live rent free or without a complete 12-month housing history **(applies only to First-Time Investor(s))** are allowed with the following restrictions.

- Max LTV: 70% or matrix maximum, whichever is less.
- Three months reserves added to the applicable requirement, not to exceed 12 months of reserves.
- 10% minimum borrower contribution.
- Any available portion of a 12-month housing history must be paid as agreed.

9.6 CONSUMER CREDIT

Any non-mortgage account can be no more than 30-days delinquent at time of application. Any delinquent account must either be brought current or paid off at closing.

9.7 CONSUMER CREDIT CHARGE OFFS AND COLLECTIONS

The following accounts may remain open:

- Collections & charge-offs < 24 months old with a maximum cumulative balance of $2,000.
- Collections & charge-offs ≥ 24 months old with a maximum of $2,500 per occurrence.
- All medical collections (regardless of amount).
- Collections & charge-offs that have expired under the state statute of limitations on debts (evidence of expiration must be documented).

9.8 DISPUTED ACCOUNTS/DEROGATORY CREDIT

Any disputed account(s) on the applicant's credit report within the last two years prior to the credit report date requires additional due diligence.

- Accounts with zero balance and no derogatory info – no action required.
- Accounts with zero balance and derogatory info – remove and pull a new credit report.
- Accounts with a positive balance and derogatory information – remove and pull a new credit report.

- ❖ Accounts with a positive balance and derogatory information – remove and pull a new credit report.
- ❖ Accounts with a positive balance and no derogatory information – no action required.

Any derogatory credit on an applicant's credit report within the last 12 months, not otherwise addressed, must be acceptably explained by the applicant. Any patterns of delinquent credit outside of the 12-month period must be explained by the applicant.

9.9 CREDIT COUNSELING

Borrower is not eligible if in a credit counseling program.

Any outstanding judgments or tax liens may remain open under the following:

- ❖ Applicant(s) must be on a repayment plan.
- ❖ Most recent 6 months payments paid in a timely manner (must be documented).
- ❖ If the judgment or tax lien is recorded against the property it must be subordinate.

If the conditions above are not met, the judgment or tax lien must be paid off prior to or at closing. Cash-out proceeds may be utilized for this purpose as long as they are consistent with federal, state, and local laws (including compliance-related to the business purpose loan proceeds use).

9.10 BANKRUPTCY

All bankruptcies must be settled at time of application. Evidence of bankruptcy resolution is required. Seasoning is measured from the discharge/dismissal date to the note date. All bankruptcies must be discharged or dismissed for a minimum of 60 months from the closing date. For a Chapter 13, a discharge with no seasoning may be allowed. **No multiple housing events (FC, BK, SS/DIL) in the last seven years**.

9.11 FORECLOSURE

Seasoning of a foreclosure is measured from the settlement date (final property transfer) to the note date. Foreclosure must be seasoned for a minimum of 60 months from the closing date. **No multiple housing events (FC, BK, SS/DIL) in the last seven years**.

9.12 SHORT SALE/DEED-IN-LIEU

Seasoning of short sale or deed-in lieu is measured from the settlement date (sale or final property transfer) to the note date. SS/DIL must be seasoned for a minimum of 60 months from the closing date. **No multiple housing events (FC, BK, SS/DIL) in the last seven years**.

9.13 FORBEARANCE OR MODIFICATION

Forbearance or loan modification resulting in any of the attributes below is subject to seasoning of 60 months:

- Forgiveness of a portion of principal and/or interest on either the first or second mortgage.
- Application of principal curtailment by or on behalf of the investor to simulate principal forgiveness.
- Conversion of any portion of the original mortgage debt to a “soft” subordinate mortgage.
- Conversion of any portion of the original mortgage debt from secured to unsecure.

If any of the above applies or if the borrower experienced COVID-19 related forbearance, a letter of explanation from the borrower addressing the situation that made forbearance or 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. For COVID related forbearance, follow Fannie Mae guidelines.

CHAPTER 10: ASSETS

10.1 DOCUMENTING ASSETS

Asset documentation is required to evidence funds to cover down payment and other related closing costs as well as satisfy reserve requirements (if applicable).

Assets and reserves should be calculated and documented per Fannie Guidelines unless otherwise specified in these guides.

10.2 RESERVES

Reserves include cash and other assets that are easily convertible into cash by the borrower. Required reserves published in the Matrix are calculated utilizing the qualifying payment and are measured by the number of months of housing expenses that an applicant could pay using their financial assets.

Cash-out from the subject transaction may be used toward the reserve requirement.

For loans with an IO (interest only) feature, reserves are based on the ITIA payment.

10.3 DOWN PAYMENT

Down payment funds should be seasoned 60 days or sourced and documented, at the underwriter's discretion, using the methodology described in B3-4.2-01: Verification of Deposits & Assets. Funds not seasoned 60 days must be documented as outlined above and large deposits will need to be sourced, at the underwriter's discretion.

Generally, all earnest money deposits must be fully documented including the source of the down-payment from the applicant(s) account(s) and the evidence of the transfer to the closing agent. Gift Funds may be utilized towards down payment requirements. See Gift Funds for restrictions.

If Interfirst determines that the source of down payment is another extension of credit, Interfirst will consider this simultaneous secondary financing and the amount will be calculated into the final CLTV figure.

10.4 DEPOSITORY ACCOUNTS

Funds held in a checking, savings or other depository account(s) can be used for down payment, closing costs and reserves. Interfirst will investigate any funds which appear to be borrowed such as recent large deposits, recently opened accounts or account balances that are significantly larger than the average balance leading up to the loan application date. In these instances, Interfirst will require a written LOE signed by the applicant(s).

If any account utilized for down payment, closing costs and/or reserves is coming from an account not held solely by the borrower, all parties on the account must provide a written statement that the borrower has full access to and use of the funds.

10.5 GIFT FUNDS

Gift funds are allowed for paying off debt, equity contribution, refinances, down payment and/or closing costs. Gift funds are not allowed to be counted as reserves.

A signed gift letter is required, and must provide all the following:

- Dollar amount of gift; and

- ❖ Donor’s name, address, phone number & relationship to the borrower (Acceptable Donors); and
- ❖ Date funds were transferred or, if not transferred prior to closing must state funds will be sent to the closing agent (acceptable forms: certified check, money order, wire transfer or cashier’s check);and
- ❖ Donor’s statement that no repayment is required or expected.

Sufficient funds to cover the gift must be verified as either currently in the donor’s account or evidence of transfer into the borrower’s account. Acceptable forms of documentation:

- ❖ Copy of the donor's check along with the borrower's deposit slip or copy of the donor's withdrawal slip and the borrower’s deposit slip.
- ❖ Copy of the donor's check to the closing agent.
- ❖ Evidence of wire transfer from donor to borrower.
- ❖ Settlement statement showing receipt of the donor’s check.

If borrower is utilizing 100% gift funds

- ❖ 10% reduction in maximum LTV is required unless the borrower has 5% of their own funds verified.

Note: Gifts of equity are **not** allowed.

10.6 ASSETS HELD IN FOREIGN ACCOUNTS

Assets held in foreign accounts may be used as a source of funds to close and to meet applicable reserve requirements. Closing funds and reserves must be transferred to a U.S. domiciled account in the borrower’s name at least 30 days prior to closing. For U.S. citizens & permanent resident aliens all funds required for down payment, closing costs and reserves must be seasoned for 60 days.

Assets held in foreign accounts must be documented as follows:

- ❖ Assets must be verified in U.S. Dollars using the current exchange rate via either the Wall Street Journal conversion table or www.xe.com.
- ❖ A copy of the two most recent statements of the account. If the funds are not seasoned at least 60 days, an LOE is required along with supporting information to comprise a 60-day chain of funds.

10.7 ASSET ELIGIBILITY

The following provides a list of assets and when they can be utilized. Assets not specifically mentioned in this section may be acceptable if pre-approved by Interfirst.

10.7.1 BUSINESS ASSETS

Business assets may be used for down payment, closing costs or reserves. Borrowers on the loan must have at least 50% ownership of the business and must be owners on the business account being utilized. Ownership percentage will be determined by CPA letter, operating agreement or equivalent.

All non-borrowing owners of the business must acknowledge the transaction and confirm the borrower(s) has access to funds in the account by providing a signed and dated letter stating such. To determine the borrower(s) portion of the business assets allowed for the transaction, multiply the balance of the business assets by the cumulative ownership percentage of the borrower(s).

Any business funds transferred into the borrower's personal account prior to application date may be utilized without restriction.

10.7.2 PROCEEDS FROM A CASH-OUT REFINANCE

Cash-out proceeds from the subject property (or non-subject property) refinance may be used for closing costs or to pay down or pay off debt(s). Cash-out may also be used as reserves.

10.7.3 EARNEST MONEY DEPOSIT (EMD)

If an EMD is needed, it must be verified that the funds are from an acceptable source. Any of the following is acceptable documentation:

- ❖ Copy of the borrower's canceled check.
- ❖ Certification from the deposit holder acknowledging receipt of funds.
- ❖ Bank statement or VOD showing the average balance was sufficient to cover the amount of EMD.

If the funds have not been cleared, a copy of the check may be obtained along with a certification verifying with the bank the date the check cleared, the dollar amount of the check and the name of the individual providing the information.

10.7.4 PROCEEDS FROM THE SALE OF REAL ESTATE

The proceeds from the sale of real estate is an acceptable source of funds for down payment, closing costs and/or reserves. The closing of the non-subject transaction must be simultaneous with the subject closing (or take place prior to). The net proceeds to the borrower must be verified via a settlement statement or equivalent documentation.

10.7.5 CERTIFICATE OF DEPOSIT (CD)

CDs are an acceptable source of funds for down payment, closing costs and/or reserves. The funds must be U.S. Dollar deposits in U.S. institutions. 100% of the face value of the account may be utilized.

10.7.6 LIFE INSURANCE & ANNUITIES

The cash value of a whole life insurance policy or an annuity is an acceptable source for down payment, closing costs and/or reserves. The cash value is 100% of the stated value net of any loan(s). If it is being utilized for funds to close, the liquidation must be documented.

10.7.7 BORROWED FUNDS

Borrowed funds from a secured loan may be used as a source of funds for down payment, closing costs and/or reserves if:

- ❖ The borrower already owns the asset securing the loan (retirement account, CDs, etc.).
- ❖ The terms of repayment and the secured nature of the loan must be documented via a copy of the note.
- ❖ The value of the remaining assets must be reduced by the amount of the secured loan balance.

10.7.8 MARKETABLE SECURITIES

Marketable securities may be used for down payment, closing costs, and/or reserves provided the value can be verified. Marketable securities must be traded on a major market exchange such as the New York Stock Exchange, NASDAQ, etc. where liquidity and valuation can be easily determined. If the aforementioned is met, 100% of the value of the marketable security can be utilized. The liquidation of any marketable security needed for down payment or closing costs should be documented along with the new ending balance.

10.7.9 RETIREMENT ACCOUNTS

Vested funds from a 401(k), IRA, or other retirement savings account are acceptable as a source of down payment, closing costs and/or reserves.

Ownership of the account must be verified as well as the receipt of any funds received from the liquidation of the asset(s) needed for the subject transaction. If the funds are being utilized for reserves, liquidation is not required. Retirement accounts without withdrawal restrictions may be utilized for reserves. To calculate the amount available, utilize the vested balance less any outstanding loans and funds liquidated at 80% of net value (if the borrower is of retirement age) or 70% (if the borrower is not of retirement age).

NOTE: If the retirement account only allows for withdrawal of funds based on the borrower's employment termination, retirement (unless the borrower is of retirement age), or death; the vested funds cannot be utilized as reserves.

10.7.10 1031 EXCHANGE

Transactions involving a 1031 exchange must meet the following requirements:

- Sales contract for the sold property along with the 1031 exchange agreement must be provided.
- The exchanged property must be identified within 45 days from the date of sale of the previous transaction.
- All 1031 proceeds of the previous transaction must be controlled by a qualified intermediary (QI), accommodator or facilitator.
- The QI/accommodator/facilitator of the 1031 Exchange cannot be the taxpayer, a related party, or an agent of the taxpayer.
- All 1031 proceeds must be re-invested in like-kind property within 180 days of the previous transaction.
- Documentation of the QI/accommodator or facilitator, exchange company or attorney holding the funds must be in the file.
- If exchange funds are being used as an EMD the taxpayer must sign an assignment of purchase and sale agreement with the QI/Accommodator/Facilitator prior to disbursement.

10.7.11 TRUST FUNDS

Trust account funds are an acceptable source of down payment, closing costs and/or reserves provided the borrower has immediate access to the funds. The following requirements must be met:

- Trust agreement must be in the file.
- A trust manager or trustee must provide written documentation verifying the value of the trust account and the condition(s) under which the borrower has access to the funds and the effect the withdrawal of the funds may have on trust income used to qualify the borrower.

10.7.12 STOCK OPTIONS

Vested stock options are an acceptable source of funds for down payment, closing costs and/or reserves if the options are immediately available to the borrower.

The value of the vested stock options should be documented by referencing a statement listing the number and price of the options and comparing that to the current stock price. The resulting gain from exercising the options and the sale of the resulting stock is the value that can be utilized for down payment and closing costs.

If the fiduciary of the stock option transaction did not withhold taxes from the net proceeds, Interfirst must investigate whether the borrower will suffer a liquidity event when the taxes become due.

If vested stock options are being used for reserves, 70% of the current market value of the options can be utilized.

NOTE: Non-vested stock options are NOT an acceptable source of funds.

10.7.13 SPOUSAL ACCOUNTS

Accounts held in the name of a non-borrowing spouse may be used for down payment or closing costs but cannot be used as reserves.

10.7.14 INELIGIBLE ASSETS

The following are not eligible:

- Unsecured loans or cash advances (credit card advances, etc.).
- Restricted stock/securities.
- Sweat equity.
- Non-marketable securities.
- Gift/Grant funds which must be repaid.
- Bridge loans.
- Section 8 voucher assistance.
- Down payment assistance programs.
- Cryptocurrency.

CHAPTER 11: PRODUCTS

11.1 OVERVIEW

Various forms of documentation are acceptable depending on the borrower profile, income type and corresponding product.

11.2 PRODUCT

This product is designed for experienced real estate investors seeking financing for business purposes. Qualification is determined solely based on the Debt Service Coverage Ratio (DSCR). No borrower income or employment is to be included on the loan application. These loans are deemed business purposes and are exempt from ATR, QM and HPML requirements. The program is limited to **Investment Properties ONLY**, no exceptions. Borrowers must acknowledge the loan is intended for "business purposes" via the Occupancy Affidavit.

No 4506-C, Tax Transcripts or Tax Returns

A **First-Time Investor** is allowed. A first-time investor is defined as a borrower who has not owned at least one investment property for a minimum of 12 months anytime during the most recent 60-month period (management of commercial property is acceptable). A first-time investor is allowed with the following guideline restriction: Higher DSCR requirement (see the ONE Matrix).

11.3 ONE QUALIFICATION

Income used to qualify is based upon the cash-flow from the subject property. To determine income, utilize the following:

Purchase:

If the transaction is a purchase and the subject is unoccupied, utilize the market rent survey from the appraisal. If a lease is being transferred with the property or a lease is executed prior to closing use the lesser of:

- Market Rent Survey form 1007/1025; or
- Monthly rents per the lease agreement.

Refinance:

If the transaction is a refinance, the subject should be tenant occupied or an LOE should be provided. Income is calculated as the lesser of:

- Market Rent Survey form 1007/1025; or
- Monthly rents per the lease agreement.

Short-term leases:

Purchase: use the rents provided on the market rent schedule form 1007/1025.

Refinance: use the leases collected throughout the year and average over the 12-month period. If there are months where the property was vacant, use zero for that month on the average. The average should be supported by the rent schedule (within reason).

- Airbnb, VRBO, etc.: If the subject is leased on a short-term basis utilizing an online service such as Airbnb, gross monthly rents will be determined utilizing a 12-month lookback period and either 12 months statements or an annual statement provided by the online service. If documentation is not sufficient to cover the most recent 12-month period, the property will be considered unleased.

Accessory Dwelling Unit:

Rental income from ADU cannot be used.

Qualification:

For **full amortization**, use the note rate to calculate the PITIA for use in the debt service coverage ratio (DSCR) calculation.

For **interest only**, use the note rate to calculate the ITIA for use in the DSCR calculation.

<u>DSCR calculation</u>:

The DSCR is calculated by taking 100% of the gross rents divided by either the PITIA (full amortization) or the ITIA (interest only) of the subject property.

For multiple units:

Each unit will be reviewed independently using the logic above. For instance, take the two-unit scenario below:

Unit 1: Market rents $2,500 | lease agreement $2,000

Unit 2: Market rents $2,000 | lease agreement $2,100

The gross rents would be $2,000 (unit 1)+$2,000 (unit 2)=$4,000

To qualify for ONE the DSCR must be ≥ 1.00.

11.3.1 TERM OF LEASES

- The lease must be valid for a minimum of 30 days after the closing date.

- The lease that expired prior to the application must have a month-to-month conversion clause or must obtain evidence of the lease renewal or updated lease agreement.