Angel Oak
MORTGAGE SOLUTIONS

MARCH 20, 2024

PORTFOLIO PROGRAMS

UNDERWRITING GUIDELINES

PLATINUM

PORTFOLIO SELECT

BANK STATEMENT

Contents

1 Introduction

1.1 Alternate Loan Program Analysis

The Angel Oak Underwriter is required to complete the Credit Risk Summary and Exception Approval Form to ensure borrowers are proceeding under the appropriate loan program.

1.2 Angel Oak Rights

Angel Oak reserves the right to decline any loan that they believe is not in the best interest of the borrower or does not meet the spirit of the guidelines.

1.3 Equal Credit Opportunity Act

Angel Oak (AO) operates in accordance with The Federal Equal Credit Opportunity Act. ECOA prohibits lenders from discriminating against borrowers on the basis of race, color, religion, national or ethnic origin, sex, marital or familial status, age (provided the borrower has the capacity to enter into a binding contract), disability, because all or part of the borrower's income is derived from a public assistance program or because the borrower has, in good faith, exercised any rights under the Consumer Credit Protection Act. State laws may also prohibit discrimination on certain additional basis such as sexual orientation.

1.4 Escrow Waivers

In compliance with Local, State and Federal Laws, tax and insurance escrows may be waived when the following requirements are met:

- Less than or equal to 80% loan to value (LTV); and
- Minimum FICO scores of 700; and
- Are not a Higher-priced mortgage loan (HPML) – Primary Residences & 2nd Homes

Flood insurance premiums paid by the borrower must be escrowed and cannot be waived regardless of LTV or HPML thresholds.

When flood insurance premiums are paid by a condominium association, homeowner's association or other group, escrows are not required.
Refer to matrix for any potential pricing impacts

1.5 Exceptions

Exceptions to published guidelines may be considered on a case-by-case basis. Loans with exception requests should exhibit strong compensating factors. All exception requests must be submitted to Underwriting along with the Credit Risk Summary and Exception Approval Form with any supporting documentation.

1.6 Fair and Responsible Lending

Lenders are required to make a reasonable, good-faith determination before a loan is closed that the borrower has a reasonable ability to repay a loan. The lender must consider the following eight (8) underwriting factors:

- Current or reasonable expected income or assets
- Current employment status
- Monthly payment on the loan (calculated on the higher of the introductory rate or fully indexed rate; the maximum payment scheduled during the first five (5) years)
- Monthly payment on secondary financing
- Monthly payment for mortgage-related obligations, such as property taxes and insurance, HOA dues, and ground rent
- Current debt obligations, alimony and child support
- Monthly debt-to-income ratio or residual income
- Credit history

1.7 Loan Age

The loan age is considered the period between the note date and the purchaser's fund date and cannot exceed ninety (90) days.

1.8 Max Points and Fees

Total points, fees, and APR may not exceed current state and federal high-cost thresholds.

1.9 Prepayment Penalty

Owner-Occupied and Second Homes:

- Not Allowed

Investment Properties:

- Permitted as per state lending requirements.

2 Appraisal and Property Requirements

2.1 Appraisal Transfers

Appraisal transfers are allowed when an appraisal was completed prior to the loan being submitted to Angel Oak. Appraisal transfers are subject to the following requirements:

- Appraisal must have been completed by an approved AMC.
- The appraisal must be less than 60-days old (less than 120-days at closing) and completed by an Appraisal Management Company.
- A letter must be obtained from the original lender on their letterhead stating they are transferring the appraisal to Angel Oak.
- The letter must transfer the ownership and rights for the specific transaction to Angel Oak.
- The Lender must certify they have complied with Federal, State and FNMA Appraisal Independence requirements.
- An appraisal delivery form must be provided to the borrower to confirm the borrower's receipt of the appraisal within three (3) business days of the report's completion.

2.2 Appraisal Age

Appraisals for existing, proposed, and new construction loans will be valid for 120-days from the appraisal's effective date. A recertification of value is acceptable 121-days thru 180-days. After 180-days, the appraisal is expired and a new appraisal will be required.

2.3 Appraisal Analysis

2.3.1 Compatibility of Subject Property & Neighborhood

- The age and price of the subject property should generally be within the age and price ranges of properties in the subject neighborhood as reported on the URAR.
- Neighborhood factors indicating compatibility of the subject, such as present land use, predominant occupancy, and anticipated change in present land use are considered.
- Residential properties in areas that are zoned as either agricultural or commercial may be considered acceptable risks so long as their location does not impact marketability.

2.3.2 Cost Approach

- When completed, the cost approach must clearly segregate value attributed to land, outbuildings, etc. If the ratio of land value to total value exceeds 35%, an explanation from the appraiser may be required to demonstrate conformance with neighboring properties. Appraisals that rely solely on the cost approach as an indicator of market value are not acceptable.

2.3.3 Income Approach

- When the income approach to value is used, the appraisal report must include the supporting comparable rental and sales data and the calculations used to determine the gross rent multiplier. Appraisals that rely solely on the income approach as an indicator of market value are not acceptable.

2.3.4 Proximity of Comparables to Subject Property

- Whenever possible, comparable sales in the same neighborhood as the subject property should be used.
- Sales prices of comparable properties in the neighborhood should reflect the same positive and negative location characteristics.
- For properties in established subdivisions, condo projects or PUDs, comparable sales from within the same subdivision or project as the subject property must be used if the subdivision or project has resale activity.
- Use of comparable properties located outside of the established subject neighborhood must be explained in the appraisal analysis.
- For properties in new subdivisions, condo projects or PUDs, the subject property must be compared to other properties in its general market area as well as to properties within the subject subdivision or project. The appraiser must select one comparable sale from the subject subdivision or project and one comparable sale from outside the subject subdivision or project. The third comparable sale can be from inside or outside of the subject subdivision or project provided it is a good indicator of value for the subject property.

2.3.5 Property Values within Market Area

- The value of subject property should be in line with the home prices in the subject's market area. The appraiser must report the primary indicators of market condition for properties in the subject neighborhood as of the effective date of the appraisal by noting the following:
  - the trend of property values
  - the supply of properties in the subject neighborhood
  - marketing time for properties
- The appraiser must provide conclusions for the reasons a market is experiencing declining property values, an over-supply of properties, or marketing times over six (6) months.
- If the appraiser states the property is in a declining market and analyzes the marketing time at <3 months or 3-6 months, there will be a 5% LTV reduction off the maximum LTV.
- If the appraiser states the property is in a declining market and analyzes the marketing time at >6 months, there will be a 10% LTV reduction off the maximum LTV.
- The Market Conditions Addendum (FNMA Form 1004MC) is required for all appraisals of 1-4 unit properties.

2.3.6 Over-Improvements

- An over-improvement is an improvement that costs more than its contributory value within the marketplace. The appraiser must comment on over-improvements and indicate their contributory value in the "sales comparison analysis" adjustment grid. Improvements can represent an over-improvement for the neighborhood, but still be within the neighborhood price range—such as a property with an in-ground swimming pool, a large addition, or an oversized garage in a market that does not demand these kinds of improvements. Originators must review appraisals on properties with over-improvements that may not be acceptable to the typical purchaser to ensure that only the contributory value of the over- improvement is reflected in the appraisal analysis.

2.3.7 Redlining Prohibition

- Redlining is prohibited. Race, ethnicity, gender, minority geography or any other prohibited basis category should not be included as an appraisal factor or considered when reviewing an appraisal. As a matter of policy, appraisal reports which make reference to a prohibited basis category (e.g. race or minority geography) are not acceptable. The use of code phrases as proxies for race which are not necessarily descriptive of value or risk is unacceptable. The information in the appraisal report must support in an objective manner any statement or conclusion contained in the report.

2.3.8 Sales Comparison Approach

- Each appraisal must contain an estimate of market value. Market value is defined as the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition are the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:
  - Buyer and seller are typically motivated
  - Both parties are well informed or well advised, and acting in what they consider their best interest
  - A reasonable time is allowed for exposure in the open market
  - Payment is made in terms of cash in US dollars or in terms of comparable financial arrangements
  - The price represents the normal consideration for the subject property sold unaffected by special financing or sales concessions granted by anyone associated with the sale
- Comparable sales utilized in the market approach should:
  - Generally, be within one (1) mile of the subject property
  - Have been closed within the last six (6) months
  - Indicate properties that are similar to the subject property with respect to age, size, features, amenities, etc.
  - Result in an overall net adjustment not exceeding 15% of the sales price of that comparable and a gross adjustment not exceeding 25% of the sales price of that comparable
  - Reflect adjustments for individual line items not exceeding 10%
  - Have a sales price that is within the general range of value as the subject
  - Have at least three comparables that are recently closed sales
  - In instances where comparables conforming to the criteria stated above cannot be used, the appraiser must clearly justify reasons for alternate comparables.

2.3.9 Valuation Analysis and Final Reconciliation

- In the final reconciliation, appraisers must reconcile the reasonableness and reliability of each applicable approach to value along with validity of the indicated values. The appraiser must select and report the approaches that were given the most weight. An averaging technique cannot be used.

2.4 Appraisal Review

The Appraisal Review Process requires a secondary appraisal product to support the appraised value for the transaction. Acceptable review products include AVM's, enhanced desk reviews, field reviews, FNMA Collateral Underwriter (CU) with a score of ≤ 2.5 or FRE Loan Collateral with rep and warranty relief, and second full appraisals. Existing policies should continue to be followed for guidance on ordering discretionary appraisal review products if there are concerns with the original appraisal report.

The following transactions must adhere to the Appraisal Review Process:

- Loan amounts >$500,000
- Cash-out amounts exceeding $100,000
- All cash-out refinances of Investment Properties
- Non-arm's length transactions (Refer to the *Non-Arm's Length* Transactions section)
- Where allowed, Flip transactions (See *Flip Policy* for specific requirements)

LTV's of less than 50% a secondary appraisal product is not required.

Second full appraisals, paid by the borrower are required when:

Platinum	Loan amounts ≥ $1.5MM
Portfolio Select	Loan amounts ≥ $1.5MM
Bank Statement	Loan amounts ≥ $1.5MM

When two (2) appraisals are obtained, the appraisals must be completed by different, independent appraisers. The lower of the two (2) appraised values is used to determine loan-to-value.

2.5 Appraiser Qualifications

Only Angel Oak approved Appraisal Management Companies (AMC) may be used. (Refer to *Appraisal Transfers* section). Additionally, appraisers must:

- Be state-certified or state-licensed in accordance with the provisions of Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989.
- Have the requisite knowledge required to perform a professional quality appraisal for the specific geographic location and property type; and
- Have the requisite knowledge about, and access to, the necessary and appropriate data sources for the area in which the appraisal assignment is located. Appraisers who are not familiar with specific real estate markets may not have adequate information available to perform a reliable appraisal. Although the Uniform Standards of Professional Appraisal Practice (USPAP) allows an appraiser who does not have the appropriate knowledge and experience to accept an appraisal assignment by providing procedures with which the appraiser can complete the assignment, FNMA requires a lender to only use an appraiser who has the appropriate knowledge and experience, and does not allow the USPAP flexibility. Consequently, appraisers who lack the requisite knowledge and access to appropriate data must not be utilized.

- Carry a minimum of $ 1,000,000 insurances.

2.6 Inclement Weather Escrows

In circumstances where improvements by a National Builder, on a new construction property are postponed due to inclement weather, Angel Oak will allow a loan to close prior to the improvements being completed.

When a property is new construction, and the improvements do not affect the ability to obtain an occupancy permit a construction escrow may be established.

The cost of improvements may not exceed 10% of the “as completed” appraised value of the property.

Construction escrows will be established by withholding funds from the purchase proceeds equal to 120% of the estimated cost for completion of the improvements. However, if the contractor or builder offers a guaranteed fixed-price contract for completion of the improvements, the funds in the construction escrow only need to equal the full amount of the contract price.

All improvements must be completed within 180-days of the Note date.

Documentation Requirements
A certification of completion by the appraiser, verifying the work has been completed
The borrower must execute an escrow agreement that states how the escrow account will be managed and how the funds will be disbursed

2.7 Minimum Appraisal Requirements

Angel Oak’s minimum appraisal requirements include the following:

- A complete appraisal with original signature(s) and all addendums to comply with secondary market guidelines (FNMA, FHLMC, FHA, VA or private investors); and
- Written assurances that the subject appraisal was completed in conjunction with UAD, AIR and USPAP; and
- A full appraisal (URAR Forms 1004, 1025, 1073, including FNMA Forms 1004MC, Form 1007, and Form 216) as required. The appraisal must include three (3) recent closed sales for all property types on all loans (see program description for specific requirements)
- When two (2) appraisal reports are required, they should be ordered from two (2) independent appraisal firms.
- REO Properties
  - A full appraisal is required for all conventional loans due to the potential risk associated with the physical condition of REO properties.
- Appraisal Waiver (formerly PIW) or NO Appraisal MAF/PIA
  - Not allowed.

2.8 Originator Requirements

A completed appraisal report is required on all loan transactions to assess the adequacy of the property as collateral for the mortgage requested. The originator is responsible for all of the following:

- Ensuring accuracy and completeness of the appraisal and its assessment of the marketability of the property
- Underwriting the completed appraisal report to determine whether the subject property presents adequate collateral for the mortgage;
- Continually evaluating the quality of the appraiser's work through normal underwriting review of all appraisal reports and spot-check field review of appraisals as part of its quality control program;
- Ensuring that the appraiser uses sound reasoning and provides evidence to support the methodology used for developing the value opinion;
- Ensuring that the appraiser provides an accurate opinion, an adequately supported value, and an accurate description of the property;
- Ensuring that the appraiser provides his or her license or certification on the appraisal report;
- Complying with the Appraiser Independence Requirements published by Fannie Mae/Freddie Mac;
- Disclosing to the appraiser any information about the subject property of which it is aware of that could impact the marketability of the property;
- Providing the appraiser with the ratified sales contract and other financing or sales concessions that are associated with the transaction;
- Ordering and receiving the appraisal report for each mortgage transaction; and
- Ensuring the appraiser does not use unsupported assumptions or use race, color, religion, sex, handicap, familial status, national origin, or any other prohibited basis category for any party in the transaction as the basis for market value.

2.9 Property Considerations

2.9.1 Accessory Units

- Properties with accessory units, also known as Granny units, mother-in-law suites, etc., may be acceptable if all of the following are met:
  - Property is typical, readily-acceptable, and common in the subject's market area
  - Property conforms to all zoning laws and/or regulations
  - Appraisal contains two (2) comparables with similar additional accessory units
  - Accessory unit is substantially smaller than the primary dwelling
  - Legal non-conforming use may be acceptable provided its current use does not adversely affect value and marketability
  - Any rental income received from the accessory unit may not be used for qualifying
  - Existence of the unit does not jeopardize any future hazard insurance claim that may need to be filed for the property

2.9.2 Acreage

- A maximum of ten (10) acres is allowed, however parcels not exceeding twenty (20) acres may be considered if it is typical for the area and value/marketability is supported with appraisal comparables of similar acreage.
- Acreages exceeding ten (10) acres are not allowed for Texas Home Equity Loans.
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2.9.3 General Condominium Requirements

- All condominium transactions must have a completed Homeowners' Association (HOA) Certification and a valid Angel Oak or Underwriter project approval.. The HOA certification may not be greater than 90-days old at the time of closing.
- All condominium projects must meet the following requirements:

LTV's and/or Condo Presale Requirements	HOA Reserve Requirements
Condo's less than 90% closed and sold	≥10% of the annual budget

> 80%	≥10% of the annual budget
80% - 70%	≥5% of the annual budget
<70%	No reserve accounts required

- The sustainability, marketability and financial stability of the project must be supported.
- The project must be located in an area where acceptability of condominium ownership is demonstrated.
- The project must be in compliance with all applicable state or local laws. The homeowners' association must be incorporated in the state in which the project is located.
- Condo projects must have acceptable insurance coverage.
- All common areas and amenities within the project or subject phase must be complete.
- Subject unit must have at least 600 square feet of living space.
- HOA Delinquency must not exceed 15% of the units.; and
- Annual Budget Dollar Delinquency must not exceed 10%
- No more than 30% of the total square footage of the project may be used for commercial purposes.
- No single entity, same individual, investor group, partnership, or corporation may own more than 20% of the total units in the project. In the case of a project that has fewer than ten units, no single entity may own more than one (1) unit.
- Investor Concentration is limited to 100%
- Projects with pending or threatened litigation are typically ineligible. Litigation may be acceptable if it is determined to be minor and immaterial. Details of the litigation must be submitted with project review documentation to determine acceptability. An environmental hazard assessment is required for condo projects if an environmental problem is identified by the originator or Loan Purchaser through performance of its project underwriting or due diligence. The solution to the problem must be deemed acceptable by Angel Oak.
- The project must be located on one contiguous parcel of land. The project may be divided by a public street.
- The structures within the project must be within a reasonable distance from each other. Common elements and facilities, such as recreational facilities and parking, must be consistent with the nature of the project and competitive in the marketplace.
- All programs are limited to a maximum number of units purchased by one investor of 20%.
- Projects with <4 units Allowed:
    - Condominium docs are recorded
    - At least two (2) comparable sales are similar like condominiums from the immediate area

2.9.3.1 Condominium Conversions

A condominium conversion is the conversion of an existing building to a condominium project. Project conversions legally created in the past three years are not allowed.

2.9.3.2 Condominium Insurance

Earthquake Insurance Analysis, FHLMC Form 465S, must be completed when subject property is located in California. Earthquake insurance is required for projects located in "moderate" or "high" risk zip codes. Obtain a copy of the Site-Specific Earthquake Risk Analysis (SSERA) from the condominium project association.

2.9.3.3 New Condominium Projects

- 90% Sold and Closed: No restrictions
    - Foreign Nationals must meet this requirement
- ≥ 25% - 89% Sold and Closed: Maximum concentration for Angel Oak is 5% and maximum LTV is reduced by 10%
- <25% Sold and Closed: Not eligible

2.9.3.4 Site Condominiums

Projects consisting of single-family detached dwellings (also known as site condominiums) are acceptable provided the appraisal supports market acceptance of site condominiums in the subject's market area.

- SFD or Condo appraisal forms are acceptable
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2.9.4 Ineligible Projects

- Projects comprised of manufactured homes
- Projects managed and operated as a hotel or motel
- Projects containing the word hotel or motel in the name
- Projects with registration services or that offer rental
- Projects that restrict the owner's ability to occupy the unit
- Projects with mandatory rental pooling agreements that require unit owners to either rent their units or give a management firm control over unit occupancy
- Projects with non-incidental business operations owned or operated by the homeowners' association (such as a restaurant, spa, health club, etc.)
- Common interest apartments
- Timeshare or segmented ownership projects
- Multi-unit dwelling condos that permit an owner to hold title to more than one dwelling unit, with ownership of all of his or her owned units evidenced by a single deed and financed by a single mortgage

2.9.5 Dampness

- If the appraisal report notes evidence of dampness, the appraiser must clearly define the effect on value and marketability of the subject property, as well as include a comment regarding the probable cause of the dampness problem. Generally, a structural engineer's report is required prior to making a loan decision. The cause of the dampness must be corrected prior to closing should the dampness problem indicate a structural deficiency and/or significant negative impact on value or marketability.

2.9.6 Deed Restrictions

- Properties with deed restrictions that limit transferability of title are not acceptable.
- Age restricted properties are acceptable.

2.9.7 Deferred Maintenance

- The property must be in average or better condition. Deferred maintenance may be permissible provided the neglected item is not structural in nature (as noted by the appraiser). Deferred items may be left "as is" if the aggregate cost to cure the deficiency does not exceed $2,000 and or impact the safety or habitability of the property.

2.9.8 Disaster Area

- The following policy applies to properties located in Presidential/State or FEMA declared disaster areas. The list can be found on FEMA's website at *http://www.fema.gov/news/disasters.fema*

2.9.8.1 Appraised Prior to Disaster

For loans secured by properties appraised prior to the Presidential/State Declaration, the following post-disaster guidelines apply:

- An interior and exterior inspection of the subject property is required.
- The original appraiser should perform the inspection and provide a certification stating that the subject property is free from damage and is in the same condition as previously appraised, and that marketability and value remain the same
- If the original appraiser is not available, the inspection may be completed by any of the following:
- Property / Building Inspection Company
- Licensed general contractor
- Building or safety inspector from local municipality

- Licensed structural engineer
- The inspector must be given a copy of the original appraisal report.
- The inspector must provide certification, on their letterhead, stating:
- Original appraisal has been reviewed
- Interior inspection has been completed
- To the best of their knowledge, the subject is free from significant damage and all repairs, if needed, have been completed

2.9.8.2 Appraised After Disaster

For loans secured by properties appraised after the Presidential/State Declaration, the appraiser must note any damage and its effect on marketability and value.

2.9.9 Electrical System

- An electrical certification from a licensed electrician is required if the appraisal notes a fair or poor rating concerning the adequacy or condition of the system. Any electrical inadequacies must be corrected prior to closing.

2.9.10 Eligible Properties

- Single-family detached and attached
- PUD's: Detached and attached
- 2-4 units
- Condominiums (Refer to *General Condominium Requirements* section for specific requirements)
- Rural Properties: Must be residential in nature (Investment properties ineligible).

2.9.11 Environmental Hazards

- The appraisal report should note the existence of known environmental hazards and its effect on value and marketability of the subject property. Environmental hazards include but are not limited to:
  - Evidence of radon above EPA safety levels which is left untreated
  - Properties built on or near toxic waste dumps, cleanup sites, etc.
  - Presence of urea formaldehyde foam insulation (UFFI)
- A property inspection completed by a licensed inspector is required in order to make final determination of the acceptability of the property. The mortgagor's acknowledgment of condition is required.

2.9.12 Escrows for Work Completion

- Not allowed
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- Refer to *Inclement Weather Escrows* for additional information.

2.9.13 Flood Insurance

- 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 costs of the insurable value of the improvements;
  - The maximum insurance available from the National Flood Insurance Program (NFIP), which is currently $250,000 per dwelling; or
  - The unpaid principal balance of the mortgage

2.9.13.1 Allowable Deductible

The deductible must be no greater than the National Flood Insurance Program (NFIP) https://emilms.fema.gov/IS1101b/groups/74.html maximums based on the property type, unless state law requires a higher maximum deductible amount. This requirement applies to both NFIP and private policies.

2.9.14 Flood Zone

- The appraisal should indicate if the property is located in a flood zone.

2.9.15 Foundation Settlement

- If the appraisal report notes evidence of excessive settlement, the appraiser must clearly define the effect on value and marketability of the subject property. Settlement problems which denote structural deficiencies and/or significant negative impact on value and marketability must be corrected prior to closing. Generally, a structural engineer's report is required prior to making a loan decision.
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2.9.16 Hazard Insurance

- Hazard insurance must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. The coverage must provide for claims to be settled on a replacement cost basis. Extended coverage must include, at a minimum, wind, civil commotion (including riots), smoke, hail, and damages caused by aircraft, vehicle, or explosion.
- Hazard insurance policies that limit or exclude from coverage (in whole or in part) windstorm, hurricane, hail damages, or any other perils that normally are included under an extended coverage endorsement are not acceptable.
- Borrowers may not obtain hazard insurance policies that include such limitations or exclusions, unless they are able to obtain a separate policy or endorsement from another commercial insurer that provides adequate coverage for the limited or excluded peril or from an insurance pool that the state has established to cover the limitations or exclusions.

2.9.16.1 Hazard Insurance Coverage Amounts

Hazard insurance coverage should be in the amount of the lesser of:

- 100% of the insurable value of improvements, as established by the property insurer; or
- The unpaid principal balance of the mortgage, as long as it 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.

2.9.16.2 Allowable Deductibles

The maximum allowable deductible for insurance covering a property (including common elements in a PUD, condo, or co-op project) securing a first mortgage loan is 5% of the face amount of the policy. When a policy provides for a separate wind-loss deductible (either in the policy itself or in a separate endorsement), that deductible must be no greater than 5% of the face amount of the policy.

2.9.16.3 Policy Effective Dates

Policy must be effective for at least 60-days after the date of funding (does not apply to condominium projects insurance policies). Evidence of Insurance may be provided in one of the following forms:

- Policy
- Certificate of Insurance (COI)
- Insurance Binder allowed within 30 days of closing date; otherwise, a declarations page is required.

2.9.16.4 Evidence of Insurance

Evidence of Insurance must provide the following information:

- Names of borrowers that are the same as the names on the note
- Property address that agrees with the note/security instrument
- If a primary residence – a mailing address is the same as the property address
- Policy Number
- Loan Number
- Name of Insurance Company
- Insurance Agent information
- Effective and expiration dates of coverage
- Premium Amount
- Coverage amount and deductible
- Loss payee clause as applicable
- Agent's signature and date

2.9.17 Heating Systems

- A central heat source with ductwork or baseboard in all rooms is required on all properties. If subject does not have central heat, the appraiser must provide similar comparable properties and an addendum indicating:
  - heat source is typical for the area
  - heat source is permanently attached
  - heat source is adequate for the dwelling
  - heat source is externally vented
- Exception can be made for no heating to exist in markets where this is typical such as south Florida or Hawaii. Comparable sales must also not have a heating source to be considered typical.

2.9.18 Ineligible Properties

- Co-operative Units
- Properties with lots in two (2) different states
- Condotels or Condo Hotels
- Earth Homes, Berm Homes, and Dome Homes
- Community Land Trusts
- Deed restricted communities (e.g. factors that impair lenders rights); Age restricted properties acceptable
- Dwellings containing more than 2-units
- Geodesic Dome Homes
- Houseboat projects
- Log homes (unless typical for the area and three comparable sales from the immediate area can be provided)
- Manufactured Homes
- Mixed-Use Properties
- Model Home/Builder Leasebacks
- Modular Homes
- Properties representing an illegal use under zoning regulations
- Properties that are subject to hazardous materials, noxious odors or safety violations
- Properties used primarily for agriculture, farming or commercial use
- Properties located in Native American Indian Reservations
- Properties located in Lava Zone 1
- Properties held in an Illinois Land Trust
- Structures or projects with non-conforming use of land where zoning prohibits rebuilding in the event of total or partial destruction
- Timeshares
- Vacant developed or undeveloped land
- Properties located on a sink hole

2.9.19 Minimum Property Standards

- All properties must meet the following requirements:
- Be improved real property
- Be designed and available for year-round residential use
- Be complete with kitchen and bathroom facilities
- Contain a minimum of 600 square feet of gross living area

- Be heated by a continuously fueled heat source which is permanently affixed to the real estate. Alternative heat sources are acceptable when marketability has been demonstrated. No heating system at all is acceptable is certain geographic area where no heat is common for the area. (Example: South Florida and Hawaii) At least two (2) comparable sales without heat sources must be utilized within the appraisal.
  - Property must be in C4/Q4 condition or better.
  - Represent the “highest and best” use of the subject
  - Be free of all health and safety violations

- Not be in violation of any housing codes or exhibit items that adversely affect the ownership, habitability, or marketability of the subject property

2.9.20 Multiple Dwelling on One Lot

- Properties with two or more detached single-family homes on a single lot are generally ineligible for financing. Single-family properties containing additional residential dwellings (guesthouse, carriage house, etc.) must comply with local zoning regulations. They must be typical and common within the subject's neighborhood. Typically, the additional dwelling is smaller than the main dwelling and will not be rented. The subject property should be appraised as a single-family residence. Any value for additional dwellings should be supported by comparable sales. Also, see *Accessory Units* Section.
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2.9.21 Multiple Parcels

- Multiple Parcels must be adjoining.
- Only one (1) parcel can have a dwelling unit – limited non-residential improvements such as a garage are acceptable.
- The property must be zoned residential.
- The mortgage must provide a valid first lien on all parcels. Each parcel must be conveyed in its entirety.

2.9.22 New Construction

- The following is required for all new construction properties:
  - Appraisal Update and/or Completion Report (FNMA Form 1004D) with complete interior photos reflecting completion, if applicable
  - Property taxes are calculated at 1.5% of the sales price for qualification

2.9.23 Pest Infestation

- If the appraisal report or sales contract notes evidence of termites or other insect infestation, a pest inspection report certifying treatment of the infestation prior to closing is required. Any significant structural damage due to pest infestation must be corrected prior to closing.

2.9.24 Plumbing

- A plumbing certification from a licensed plumber is required whenever the appraisal states a fair or poor rating concerning the adequacy or condition of the system. Any inadequacies must be corrected prior to closing.

2.9.25 Postponed Improvements or Proposed Construction

- Not allowed

2.9.26 Private Roads

- Properties on private roads are acceptable subject to the following:
- The title company must affirmatively insure access to the subject property from a public street.
- An adequate, legally enforceable agreement or covenant for maintenance of the street is required. The agreement should include provisions for the responsibility for payment of repairs, including each party's representative share, default remedies in the event a party to the agreement or covenant fails to comply with his or her obligations, and the effective term of the agreement which in most cases should be perpetual and binding on any future owners. If the property is located within a state that has statutory provisions that define the responsibilities of property owners for the maintenance and repair of a private street, no separate agreement or covenant is required. Any maintenance costs are to be included in the borrower's housing ratio.
- PUD's are excluded from this policy as private roads in PUD communities are maintained by the community.
- Properties located in the State of California are excluded from this requirement

2.9.27 PUD (Planned Unit Development)

- A Planned Unit Development (PUD) is a project or subdivision that consists of common property and improvements that are owned and maintained by an owners' association for the benefit and use of the individual PUD units. In order for a project to qualify as a PUD, each unit owner's membership in the owners' association must be automatic and non-severable and the payment of assessments related to the unit must be mandatory. Zoning is not a basis for classifying a project or subdivision as a

PUD. The PUD project must be analyzed to ensure that an individual unit in the project will be acceptable security for the mortgage.

- There are two distinct classifications for PUD projects: Type E (established PUD projects) and Type F (new PUD projects). If the subject property is a detached unit, no analysis is required.
- If the subject is an attached PUD, the following review is required:
-
- Type E Review
- Type E PUD is an established PUD project where the developer has turned over voting control of the HOA to the unit purchasers. This is the sole criteria to qualify a Type E Project.
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2.9.28 Rural Properties

- A property indicated by the appraisal as rural, or containing any of the following characteristics, is typically considered a rural property:
  - Neighborhood is less than 25% built-up
  - Area around the subject is zoned agricultural
  - Photographs of the subject show a dirt road
  - Comparables are more than five miles away from the subject
  - Subject is located in a community with a population of less than 25,000
  - Distance to schools and/or amenities is greater than 25 miles
  - Subject property and/or comparables have lot sizes greater than 10 acres
  - Subject property and/or comparables have outbuilding or large storage sheds
  - Rural properties must comply with all of the following criteria:
  - Must be Primary Residence Only
  - Must be primarily for residential use
  - Property must not be agricultural or provide a source of income to the borrower
  - Lot size and acreage must be typical for the area and similar to the surrounding properties
  - Property cannot be subject to any idle acreage tax benefit or other tax incentive program
  - Maximum acreage allowed is 10, which includes road frontage and subject property
  - Present use as per the appraisal must be the "highest and best use" for the property
  - Condition, quality, and use of outbuildings may be considered in determining the market value of the subject property when the appraiser clearly supports the adjustments with similar comparable information

2.9.29 Septic System/Sewage Disposal System

- Sewage disposal systems may require certification if the appraiser or purchase contract indicates the necessity. The report should be provided by a city, county, or state (or governing body) official or qualified entity stating:
  - Sewage disposal system complies with applicable local and/or state health standards, is in proper working order, and can be expected to function satisfactorily; or
  - Local and/or state health standards do not apply for the sewage disposal system; however, it is found to be in proper working order and adequate for the subject property
- For systems one-year-old or less, the certification may be no more than one-year-old on the date of closing. For systems more than one-year-old, the certification may be no more than 120-days old on the date of closing.

2.9.30 Unconventional Floor Plans

- Properties with unusual floor plans or functional obsolescence may be considered if the appraisal demonstrates acceptability in the market place and includes appropriate adjustments. A floor plan sketch is required for all appraisals.

2.9.31 Water Supply

- Water certification must be obtained if required by the appraiser or purchase contract. The report should be provided by a city, county, or state (or governing body) official or a qualified entity stating:

- The water supply system is in proper working order and pumping an adequate supply of water for the subject property; and
- The water supply is potable and complies with local and/or state health authority standards (in the absence of a local health authority, a reputable chemical testing agency must certify that the water is fit for human consumption). The water certification(s) for existing properties may be no more than 120 days old on the date of closing. If new construction, the report may be up to one (1) year old as of the date of closing.

2.9.32 Zoning and Land Use Regulations

- Property improvements must constitute a legally permissible use of the land based on the zoning ordinance. If the improvements represent a legal, non-conforming use of land, a letter from the local building authority or appraiser must be obtained to certify the subject property can be rebuilt "as is" in the event of partial or total destruction.
- The appraiser must compare the existing and potential use of the subject property to the zoning regulations. In addition, the appraiser should notate any adverse effect that a non-conforming use has on the value and marketability of the subject property.
- Special consideration must be given to properties that are subject to other types of land use regulations, such as coastal tideland or wetland laws, as setback lines or other provisions may prevent reconstruction or maintenance of the property improvements in the event of damage or destruction. The intent of some land-use regulations is to remove existing land uses and to stop land development (including the maintenance, or new construction, or seawalls) within specific setback lines. Except as stated above, properties with land-use restrictions which prohibit the reconstruction to maintain the dwelling are ineligible.

3 Assets

3.1 General Information

All funds used for closing and reserves must be sourced or seasoned for no less than 60-days.

- Funds must be sourced or seasoned in a US account
- 401-K accounts only require a 30-day statement. Standard guides for liquidation etc. apply
- All deposits greater than or equal to 50% of the borrower's gross monthly qualifying income must be sourced.
- Account statements must provide all of the following information:
  - Borrower as the account holder
  - Account number
  - Time period covered
  - Current balance in US dollars
  - Statement date
- Funds coming from sources such as a Closing Disclosure, one-time legal settlement, sale of an asset, or other similar transactions do not need to be seasoned.

3.2 Documenting Assets with Bank Statements – Personal

Borrowers using personal bank statements to document assets under a full documentation loan must meet the following requirements:

- Bank statements may not be more than 90-days old as of the Note date.
- Large deposits that represents ≥ 50% of the Borrower's gross monthly qualifying income must be sourced.

(Refer to the *Bank Statement Program*,Sections for documentation requirements for these programs).

Documentation Requirements
Borrower's most recent one (1) month bank statement reflecting a minimum of 30-days history.

3.3 Borrowed Funds Secured by an Asset

Borrowed funds that are secured by an asset may be used as a source of funds for the down payment, closing costs, and reserves. Assets that may be used to secure funds include automobiles, artwork, collectibles, stocks and/or bonds, and 401(k) accounts.

The individual providing the secured loan cannot be a party to the transaction.

The monthly payments for the loan secured by non-financial assets must be counted in the debt-to-income ratio. However, when the loan is secured by the borrower's financial assets (401k) and there are sufficient assets to pay off the loan currently verified, the monthly payment for the loan does not have to be considered in the borrower's debt-to-income ratio when qualifying the borrower.

If the same financial asset is also used as part of the borrower's financial reserves, only the net value of the asset after it has been reduced by the proceeds from the secured loan (and any related fees) will be considered.

Documentation Requirements
The terms of the secured loan and transfer of funds to the borrower.

3.4 Business Assets

Funds from the Borrower's business checking and savings accounts may be used for down payment, closing costs and reserves.

The ending balance of Business Funds used may be the lesser of:

- 100% of the ending balance; or
- The percent of business ownership

Documentation Requirements
Borrower's most recent one (1) month bank statement.
Bank statements may not be more than 90 days old at the time of the Note date.

To determine business asset utilization under the Bank Statement program please refer to the *Bank Statement Assets* section of this guide.

3.5 Cash Value of Life Insurance

Net proceeds from a loan against the cash value or from the surrender of a life insurance policy are an acceptable source of funds for the down payment, closing costs, and reserves.

The underwriter must assess repayment or additional obligation considerations to determine any impact on borrower qualification or reserves. If penalties for failure to repay the loan are limited to the surrender of the policy, payments on a loan secured by the cash value of a borrower's life insurance policy do not have to be considered in the total debt-to-income ratio. If additional obligations are indicated, the obligation amount must be factored into the total debt-to-income ratio, or subtracted from the borrower's financial reserves.

Documentation Requirements
When documenting receipt of funds from the insurance company, a copy of the check from the insurer or copy of the payout statement issued by the insurer must be obtained.
If the funds are being used as reserves, simply use the surrendered value of the policy. Liquidation is not required.

3.6 Deposit on Sales Contract

When deposits on the sales contract are used to make any portion of the borrower's down payment, it must come from borrower's funds and the source of funds for the deposit must be verified.

Documentation Requirements
Acceptable forms of verification include evidence of payment by the borrower's bank-cancelled check, copy of statement, receipt copy or photocopy of a cashier's check/certified check, etc.

3.7 Earnest Money

Earnest money deposit funds must come from an acceptable source, and the borrower must have sufficient assets remaining to complete the mortgage transaction.

Documentation Requirements
A copy of the borrower's canceled check

3.8 Equity in Existing Home

If the proceeds from the sale of a currently owned home are needed for the down payment and/or closing costs on the new house, the funds must be verified before or simultaneously with the closing of the new house.

Documentation Requirements
A copy of the fully executed settlement statement; and
Proof of receipt of sufficient funds to close

3.9 Foreign Assets

Foreign assets must be seasoned in a U.S. depository institution prior to closing.

- All large deposits and transfers must be sourced; and
- See also *Non-Permanent Resident Aliens*; and
- When foreign assets are being used to satisfy reserve requirements, the funds may remain in a foreign account; and
- Funds must be converted to U.S. dollars using the current exchange rate; and
- Foreign assets deposited into a U.S. institution within 30-days of application are acceptable if there is evidence that the funds were transferred from the country from which the borrower previously or currently resides. It must also be established that the funds were the borrower's before the date of transfer.
- Funds must be seasoned for sixty (60) days prior to closing.

Documentation Requirements
Borrower's most recent statements covering the required seasoning period

3.10 Gift Funds

Gift funds are allowed after the borrower has met the minimum borrower contribution towards the down payment.

Gift funds must meet the following requirements:

- Primary residence only; second homes and investment properties.
- Purchase transaction; and
- Loans do not have any secondary and/or subordinate financing; and
- Funds must be applied toward down payment and/or closing costs; and
- Funds may not be applied to satisfy reserve requirements; and
- Acceptable Donors:
  - A relative, defined as the borrower's spouse, child, or other dependent, or any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship; or
  - A fiancé, fiancée or domestic partner

Funds from a spouse will not be considered a gift and must be sourced and seasoned like borrower's own funds.

Platinum	5% of the purchase price, plus *reserves* must come from the borrower's personal funds or business funds. Second Homes and investment properties require a minimum of 10% plus reserves. Business funds can only be used up to the borrower's percent of ownership in the business. Minimum 50% ownership required.
Portfolio Select	5% of the purchase price, plus *reserves* must come from the borrower's personal or business funds. Second Homes and investment properties require a minimum of 10% plus reserves. Business funds can only be used up to the borrower's percent of ownership in the business. Minimum 50% ownership required.
Bank Statement	5% of the purchase price, plus *reserves* must come from the borrower's personal or business funds. Second Homes and investment properties require a minimum of 10% plus reserves. Business funds can only be used up to the borrower's percent of ownership in the business. Minimum 50% ownership required.

Documentation Requirements
A signed gift letter evidencing:
Donor's relationship to borrower (donor must be an immediate family member); and
Donor's name, address, and phone number; and
Dollar amount of gift; and
Donor's statement that no repayment is expected; and
Subject property address

3.10.1 Gift Fund Verification

- The Underwriter must verify that sufficient funds to cover the gift have been transferred to the borrower's account.
- When the funds are not transferred prior to closing, the originator must document that the donor gave the closing agent the gift funds in the form of a certified check, a cashier's check, money order, or wire transfer.
- Acceptable documentation includes one of the following:
-

Documentation Requirements
A copy of the donor's cancelled check; or
A copy of the donor's cancelled check to the closing agent; or
Evidence of wire transfer from donor to borrower

3.11 IRS and State Refunds

IRS and State refunds are acceptable asset source.

Documentation Requirements
A copy of the refund check; and
Proof of deposit

3.12 Joint Accounts

Funds held jointly with a non-borrowing spouse are considered to be 100% of the borrower's funds.

Funds held jointly with a non-borrowing, non-spouse may be considered when a letter is obtained from the non-borrowing, non-spouse stating the applicant has 100% access to the account.

3.13 Lease with Option to Purchase

Borrowers may apply a portion of the rent paid to their required down payment, closing costs or minimum borrower contribution if the rent credits were agreed upon in the original Lease Purchase Agreement.

Credit for the down payment is determined by using the lesser of the rent credits agreed to or by calculating the difference between the market rent and the actual rent paid for the last twelve (12) months.

The market rent is determined by the appraiser in the appraisal report for the subject property. (See *Lease with Purchase Option* for additional requirements).

Documentation Requirements
A copy of the rental/purchase agreement evidencing a minimum original term of at least twelve (12) months, clearly stating the monthly rental amount, and specifying the terms of the lease.
Copies of the Borrower's canceled checks or money order receipts for the last twelve (12) months evidencing the rental payments.

The Closing Disclosure must show the actual purchase price as reflected on the Lease Purchase Agreement, while the loan-to-value will be based on the appraised value.

3.14 Reserves

Borrowers must meet the minimum reserve requirements, calculated by using Principal, Interest, Taxes, Insurance, and, if applicable, Association fees as follows:

- Net proceeds from a cash-out transaction may NOT be used to meet reserve requirements.
- Gift funds may not be used to meet reserve requirements.

The value of funds used for loan reserves will be determined as follows:

- Checking, Savings, CD's Money Markets: 100%
- Stocks, bonds, mutual funds (Public Co. listed and traded – no privately held, over the counter, pink sheet or penny stock): 85%
- Retirement Accounts:
  - Borrowers age 59 ½ and over – 80%
  - Borrowers age under 59 ½ - 70%

Borrowers with multiple reserve requirement layering will only be required to demonstrate the singular highest amount listed.

Platinum

Months Reserves	Transaction Type
6	Minimum

Portfolio Select

Months Reserves	Transaction Type
6	Minimum

Bank Statement

Months Reserves	Transaction Type
6	Minimum

Documentation Requirements
All accounts should be fully verified with ownership established; and
Verify borrower's actual receipt of the funds realized from the sale or liquidation when these funds are used to complete the transaction for any part of the down payment or required cash to close.

(Refer to the, *Bank Statement Program* and *Gift Funds* Section for specific requirements)

3.15 Sale of Personal Assets

3.15.1 Acceptable Sources

- Investment assets such as real estate, stocks, coins, art, antiques, and automobiles
- The asset must be liquidated.

Documentation Requirements
Evidence of the asset value (by an independent source); and
Evidence of ownership; and
Bill of sale; and
Evidence funds were received by borrower when using it for cash required for closing

3.15.2 Unacceptable Sources

- Non-investment assets (furniture and other personal property) are generally unacceptable.

3.16 Stock Options

Stock options are allowed as a source of funds for down payment and closing costs.

Stock options are not allowed to satisfy reserve requirements, unless liquidated.

Documentation Requirements
Evidence stock options have been liquidated.

3.17 Stocks, Bonds, Mutual Funds & Retirement Funds

Stocks, bonds, mutual funds and retirement funds are acceptable sources of funds for the down payment, closing costs, and reserves provided their value can be verified.

The value of funds will be determined as follows:

- Stocks, bonds, mutual funds (Public Co. listed and traded – no privately held, over the counter, pink sheet or penny stock): 85%
- Retirement Accounts:
  - Borrowers age 59 ½ and over – 80%
    Borrowers age under 59 ½ - 70%

Documentation Requirements
If funds from one of the accounts listed above are being used for down payment and/or closing costs, obtain evidence of the sale or redemption of the asset.

3.18 Trust Assets

Funds disbursed from a borrower's trust account are acceptable as a source of down payment, closing costs, and reserves provided the borrower has immediate access to the funds and the withdrawal does not affect the qualifying amount of continuing distributions to the borrower.

If income from a trust is being used for qualification purposes, the trust cannot be used as a source of assets.

Documentation Requirements
Evidence of the asset value (by an independent source); and
Evidence of ownership; and
Bill of sale; and
Evidence funds were received by borrower when using for cash required for closing

3.19 Unacceptable Sources of Funds

- Cash on Hand
- Signature Loans
- Stock, Stock Options & Retirement Assets: Non-vested
- Sweat Equity
- Trade Equity
- Gifts from Seller-funded programs
- Loans Secured against Household Goods
- Unsecured borrower funds
- Deferred compensation
- Non-regulated financial companies

4 Borrowers

4.1 Borrowers – General

The USA Patriot Act requires banks and financial institutions to verify the name, date of birth, address and identification number of all borrowers. Underwriter to follow the published CIP procedures for each originator to ensure the true identity of all borrowers has been documented.

4.2 Co-Borrowers

All co-borrowers must occupy the subject property.

Co-borrowers may not be an interested party to the transaction (e.g. seller, builder, realtor, appraiser (a buyer who also acts as their own buying agent is generally permitted.)

Non-Occupant Co-Borrowers are not allowed.

4.3 Co-Signor(s) and Guarantor(s)

Co-signors and guarantors are not allowed.

4.4 First-Time Home Buyers

A first-time home buyer is defined as a borrower who has had no ownership interest in a residential property in the United States during the preceding three (3) year period.

Platinum	Allowed with a twelve (12) month residential pay history verified by cancelled checks. Maximum payment shock allowed is 350%
Portfolio Select	Allowed with a twelve (12) month residential pay history verified by cancelled checks. Maximum payment shock allowed is 350%
Bank Statement	Allowed with a twelve (12) month residential pay history verified by cancelled checks. Maximum payment shock allowed is 350%

Please refer to *Reserve Requirements* for additional information.

4.5 Ineligible Borrowers

- A non-U.S citizen or illegal alien who has no lawful residency status in the U.S.; and
- Individuals who do not have a valid U.S. issued Social Security Number; and
- Co-Borrower – Trailing; and
- Limited or General partnerships, or Syndications; and
- Guardianship or Conservator; and
  Individuals with Diplomatic Immunity

To verify a borrower immunity status please refer to the U.S. Department of State's Diplomatic list at *http://www.state.gov/s/cpr/rls/*

4.6 Maximum Loan Exposure to One Borrower

The maximum loan exposure to one Borrower is limited to one (1) qualified borrower(s) to a maximum of $3,000,000 in total mortgages.

Refer to the individual loan program guidelines for variances. This applies for all products whether retained or secondary market eligible.

4.7 Maximum Number of Loans to One Borrower

Primary Residence

When financing a primary residence there is no limit to the amount of financed properties.

Second Home or Investment properties

A borrower(s) may be obligated on up to twenty (20) financed properties (including his or her primary residence).

Limitations - applies to the borrower's ownership of 1-4 unit financed properties or mortgage obligations on such properties and is cumulative for all borrowers; these limitations also apply to the total number of properties financed, not to the number of mortgages on any one property.

Exclusions - These limitations do not apply to commercial real estate, multi-family more than four 4-units, timeshares, raw land and joint or total ownership that is held in the name of any corporation, even if our borrower is the owner.

If a borrower transfers a property title to their business in order to meet the limit on multiple mortgages to the same borrower, the borrower will need to provide a copy of the creditor's release of liability. The purpose of the restriction is not to limit the number of properties a borrower owns, but to limit how many mortgages the borrower is obligated to pay.

Individual loan programs may offer different standards, please review the applicable program description.

4.8 Non-Arm's Length Transactions

Non-arm's length transactions are not allowed. These include but are not limited to affiliates of the applicant such as:

- Family members related by blood or marriage to the seller
- Owners, employees or family members of the origination lender
- Builder/developers - a builder who buys the buyer's existing home; applies to second home and investment transactions
- Trading properties with the seller

An additional appraisal product is required. (Refer to the *Appraisal Review Process* Section)

4.9 Non-Permanent Resident Alien

Program Restrictions: Maximum 80% LTV

The borrower must US Resident Credit Requirements:

- Have a valid Social Security Number, and
- Be eligible to work in the U.S. as evidenced by an EAD issued by the USCIS
- Have valid visas or other Proof of legal residency
- The documentation must be unexpired through the Note date of the loan
- Non-permanent Resident Alien borrowers are eligible for bank statement documentation.
- Non-Permanent Resident Aliens are eligible for financing with full documentation only.

4.9.1 Eligible Visa Types

- H-1B, E-1,2 and 3, EB-5, O-1, G-1 to G-5
- Temporary I-551 Stamp along with a I-797 Application for full residency OR an application of extension if within 6 months of expiration

4.9.2 Income/Employment Requirements

- Standard guidelines apply for verifying income and employment of non-permanent resident aliens.

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4.10 Permanent Resident Alien

A Permanent Resident Alien must hold a valid and acceptable visa issued by the U.S. Citizenship and Immigration Service (USCIS) as evidence of lawful presence in the U.S.

May use the following documentation as an acceptable Green card

- I-797 form "approved" by the immigration department approving their application for a green card
- An expired Green card with a completed I-797 application for renewal of green card

NOTE: An EAD (Employment Authorization Card) by itself is not sufficient to document that a non-U.S. Citizen is legally able to reside in the United States.)

While the Green Card itself states 'Do Not Duplicate' for the purpose of replacing the original card, U.S. Citizenship & Immigration Services (USCIS) allows photocopying. Making an enlarged copy or copying on colored paper may alleviate any concerns the borrower may have with photocopying.

Unexpired Foreign Passport: Must contain an unexpired stamp reading "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence; Valid until MM-DD-YY. Employment authorized."

Salaried and Wage Earner: If the borrower's green card is expired a copy of the Borrower's current employment authorization card is required.

Self-Employed: The Borrower must have a valid unexpired green card.

Documentation Requirements
A Copy of the Borrower's Green Card (USCIS Form 1-551):
A copy of the front and back of the Green Card is required
The Green Card must be unexpired through the note date of the loan.
It may be issued without conditions and is valid for ten (10) years before they must be renewed.

- There are a number of versions of the I-551 card that are no longer issued but are considered valid as long as they are unexpired.

4.11 Trust

- Must be a Revocable Trust
- Borrower must be the trustee and beneficiary
- Trustee must have the power to mortgage the security property for the purpose of securing a loan to the individuals who are the borrowers under the mortgage or deed of trust

Refer to Vesting & Ownership for additional requirements.

4.12 Unmarried Borrowers

Unmarried loan applicants applying for a loan jointly may either be placed on separate or joint 1003's; Individual credit reports must be obtained.

Documentation Requirements
Separate credit reports are required for each borrower

4.13 U.S Citizens

U.S. Citizens must have a valid Social Security Number.

4.14 Vesting & Ownership

Ownership must be fee simple. Acceptable forms of vesting are:

- Individuals
- Joint tenants
- Limited **Liability Company (LLC)/Corporation**

- LLC must have been created to manage rental properties only
- Title may be held in the LLC/Corporation; however, the loan application must be made in the individual borrower's name.
- All borrowers must sign the Deed of Trust/Mortgage as individuals and as authorized signers of the LLC/Corporation
- Leasehold Estates are allowed in areas where leasehold estates are commonly accepted.

Documentation Requirements
Copy of the filed articles of organization to evidence the existence of the LLC
Copy of the fully executed operating agreement reflecting the borrower is an authorized signer on behalf of the LLC And borrower has the authority to secure a loan for said property
Organizational meeting minutes may be required if the operating agreement does not clearly identify the powers of the managing partners.

- All borrowers must sign the Note as individuals
- Operating Agreement/Bylaws, Partnership Agreement, Articles of Incorporation used to verify percentage of business ownership may exceed 120 days.
- Assets and liabilities for all borrowers should be reflected on the 1003(s)

The Lender must ensure loans vested in an LLC are solely business-purpose loans for the purchase or refinance of investment properties. Vesting in an LLC is prohibited for owner-occupied transactions.

Vesting a property in the name of a Trust the following standards apply:

Title and Title Insurance Requirements

- Title held in the trust does not in any way diminish Fannie Mae's rights as a creditor, including the right to have full title to the property vested in Angel Oak should foreclosure proceedings have to be initiated to cure a default under the terms of the mortgage.
- The title insurance policy ensures full title protection to Angel Oak
- The title insurance policy states that title to the security property is vested in the trustee(s) of the *inter vivos* revocable trust
- The title insurance policy does not list any exceptions with respect to the trustee(s) holding title to the security property or to the trust.
- Title to the security property is vested solely in the trustee(s) of the *inter vivos* revocable trust, jointly in the trustee(s) of the *inter vivos* revocable trust, and in the name(s) of the individual borrower(s), or in the trustee(s) of more than one *inter vivos* revocable trust.

5 Credit and Liabilities

5.1 General Information

A U.S. credit report is required for each borrower on the loan who will sign the Note. The credit report should provide merged credit information from the three major national credit repositories. A minimum of two credit scores is required.

The credit report should include verification of all credit references provided on the loan application and must certify the results of public record searches for each city where the borrower has resided in the last two (2) years. Either a three (3) bureau merged report or a Residential Mortgage Credit Report (RMCR) is required.

5.2 Age of Documents

Credit documents must be no more than 90-days old on the date the note is signed.

5.3 Alimony and Child Support

Alimony and child support payments with a remaining term of ten (10) months or less will not be included in the borrower's total debt.

All child support obligations must be paid current at the time of application. Repayment plans are not acceptable.

Documentation Requirements
A copy of a divorce decree, formal separation agreement, court order or any other written legal agreement to document amounts owed and the remaining term of the payments

5.4 American Express

American Express accounts due and payable within the same month will be treated as follows:

Late payments within the past twelve (12) months:

Must include a payment of 5% of the outstanding balance in the borrower’s debt-to-income calculations or the borrower must document additional funds to pay account in full.

No late payments within the past twelve (12) months:

Will not be considered in the borrower’s debt-to-income calculations.

5.5 Authorized User Account

An authorized user is a person permitted by a credit account holder to use an account but who is not the primarily responsible for the repayment of the debt.

An authorized user account may be excluded from the credit standards for trade-line review, unless another borrower in the mortgage transaction is the owner of the trade line.

5.6 Automobile Lease

An automobile lease payment must be included in the monthly debt regardless of the remaining term.

5.7 Bankruptcy

When a borrower files for a Bankruptcy, depending on the Bankruptcy Chapter and program, the following seasoning requirements apply:

All Bankruptcies: Must be discharged prior to closing.

Platinum	**Chapter 7 & 11** 48-months since discharge or dismissal date
	Chapter 13 48-months from filing date and 24-months from discharge date if paid as agreed Dismissed: 48-months from dismissal date Payoff not allowed
	Multiple Filings Not allowed
Portfolio Select	**Chapter 7 & 11** 24-months since discharge date
	Chapter 13 24-months since filing date, if paid as agreed and discharged prior to application date Dismissed: Minimum 24-months from dismissal date Payoff not allowed
	Multiple Filings 60 months if more than one (1) filing in the past seven (7) years
Bank Statement	**Chapter 7 & 11** 24-months since discharge date
	Chapter 13 24-months since filing date, if paid as agreed and discharged prior to application date Dismissed: Minimum 24-months from dismissal date Payoff not allowed
	Multiple Filings 60 months if more than one (1) filing in the past seven (7) years

Bankruptcies may be subject to pricing and LTV adjustments, please refer to program matrix for details.

Documentation Requirements
When program permits – Bankruptcy's discharged within the past two (2) years must document the following:
A detailed letter of explanation from the borrower providing reason for bankruptcy; and
If applicable, full bankruptcy papers (discharge, petition, and schedule of debts) must be obtained and reviewed

5.8 Business Debt

Business debt appearing on the borrower's individual credit report will be included in the debt calculation unless the debt can be verified as a business expense and independent of the borrower's personal obligation.

Business debt being excluded from the monthly obligation must have a paid-on time payment history.

Refer to the *Bank Statement* section for additional requirements.

Documentation Requirements
Six (6) months canceled checks; or
Automatic drafts from the business account

5.9 Non-Housing Related Credit Events

5.9.1 Collections & Charge-Offs

- A borrower with unfavorable credit history may be deemed acceptable if the occurrences of adverse credit use are not typical and are due to circumstances beyond the borrower's control.
  - Medical collections of any age are not considered: and
  - Collections over 24-months are not considered; and
  - When permitted, collections in the past 24-months must be:
    - Paid off prior to or at closing; or
    - The borrower must have sufficient reserves to cover all collections above and beyond the required reserve requirements, or
    - Five percent (5%) of the balance is counted as a payment in the borrower debt-to-income ratio
- Please refer to *Delinquent Credit* section for additional requirements.
-

Platinum	None allowed in the past two (2) years.
Portfolio Select	Allowed in the past two (2) years.
Bank Statement	None allowed in the past two (2) years.

5.9.2 Delinquent Consumer Credit

All delinquent consumer credit must be brought current prior to or at closing.

Platinum	Delinquent credit history not to exceed 60 days in past 12 months. Forbearance – 0x30x24 prior to forbearance request. Loan will be ineligible if borrowers missed payments No waiting period if borrowers made all payments during forbearance (0x30)
Portfolio Select	Collections over 24-months are not considered. Due to Forbearance (Delinquency prior to March 2020 will not be considered forbearance): Up to 6 consecutive missed payments if due to forbearance if now current with 3 current payments
Bank Statement	Delinquent credit history not to exceed 60 days in past 12 months. Due to Forbearance (Delinquency prior to March 2020 will not be considered forbearance): Up to 6 consecutive missed payments if due to forbearance if now current with 3 current payments

(Refer to *Judgments, Garnishments, and Liens* for additional information)

Documentation Requirements
Verification of funds sufficient to satisfy these obligations
Verification the late accounts were brought current; or
Accounts may be brought current at closing and shown on the CD

5.9.3 Judgments, Garnishments or Liens

All judgments, garnishments or liens must be paid off prior to or at closing.

Platinum	Accounts paid off at closing must be reflected on the Closing Disclosure. None allowed in past two (2) years.
Portfolio Select	A satisfactory explanation for any judgments, garnishments, liens or collections less than two (2) years old.
Bank Statement	Accounts paid off at closing must be reflected on the Closing Disclosure. None allowed in past two (2) years.

5.9.4 Court-Ordered Judgments

- The monthly payment must be included in the debt-to-income calculation.
  - Court ordered judgments may remain open on a case-by-case basis if the borrower is currently in a repayment agreement with the creditor for a minimum of six (6) months prior to the application.

5.9.5 Accounts left open must be approved by Senior Management.

- Please refer to *Alimony and Child Support* section for additional requirements.
-

Documentation Requirements
A copy of the repayment agreement; and
The repayment agreement must have been in place a minimum of six (6) months; and
Evidence that payments have not been late under the agreement

5.9.6 Tax Obligations

- Tax obligations may remain open on purchase transactions only, on a case-by-case basis. Recorded liens or judgments must be paid in full.
  - Accounts left open must be approved by Senior Management.
- The maximum payment required under the plan must be included in the debt-to-income ratio. Additional LTV reductions may be required based on the size of the lien.
-

Documentation Requirements
A copy of the repayment agreement.
Agreement must have been in place a minimum of six (6) months and evidence of no late payments under the agreement.

5.10 Consumer Credit Counseling Services (CCCS)/Debt Management

A borrower who experiences credit or financial management problems may elect to participate in a consumer counseling session to learn how to correct or avoid credit problems in the future. Participants in CCCS must meet program eligibility as outlined below:

Platinum	48-months from plan initiation and 24-months from plan completion
Portfolio Select	12-months from plan initiation if paid as agreed and completed prior to application
Bank Statement	24-months from plan initiation if paid as agreed and completed prior to application

Documentation Requirements
When program permits - Letter from the CCCS administrator permitting the borrower to seek new mortgage financing
CCCS payment plan history
If a completion date is not shown on the credit report, the borrower may be required to submit verification from the CCCS administrator indicating the date of completion.

5.11 Contingent Liabilities

A borrower has a contingent liability when an outstanding debt has been assigned to another party and the creditor does not release the borrower from the liability. Contingent Liabilities can be excluded from the debt-to-income ratio under any of the following scenarios:

- Property resulting from buyout of former co-owner (i.e. divorce); or
- Mortgage assumption by third party; or
  Court ordered assignment of debts

Documentation Requirements
Court orders evidencing transfer of ownership; or
Formal mortgage assumption agreement and evidence of transfer of ownership

All delinquent credit prior to the final decree will be considered against the borrower.

Please refer to *Delinquent Credit* section for additional requirements.

Documentation Requirements
Third party verification required of issues outside of the borrower's control required at the underwriter's discretion (i.e. Creditors' processing errors, defective merchandise or catastrophic medical bills) required at the underwriter's discretion and based on the credit score analysis.
Verification that there were funds sufficient to satisfy these obligations
Written explanation from the borrower for any delinquent credit references; Explanations must satisfactorily identify the reasons for the adverse credit and provide detail demonstrating that the situation causing the delinquency has now been resolved.

5.11.1 Assumptions

- Assumptions are not usually included in the qualifying ratios if there is evidence of ownership transfer, an executed assumption agreement and evidence of timely payments during the most recent twelve (12) month period.
- If evidence of timely payments cannot be documented, the borrower must qualify with the full payment.

Documentation Requirements
A copy of the executed assumption agreement; and
Evidence of timely payments during the most recent twelve (12) month period

5.11.2 Co-Signature Debt

Co-signed debt will not be considered in Debt-to-income ratios if evidence of a timely payment history by the primary obligor is obtained.

Documentation Requirements
Evidence that last six (6) months payments have been satisfactorily paid by the primary debtor; and
Verification the account has been 0 x 30 in the last twelve (12) months with no more than 1 x 30 in the last 24-months

5.11.3 Court-Ordered Assignment of Debt

- Court ordered assignment of debt may be excluded from the borrower's debt-to-income ratios provided a divorce decree/separation agreement specifies another individual as responsible for the payments.
- Delinquent credit prior to the divorce/separation agreement will be counted against the borrower.

Documentation Requirements
A copy of the Divorce Decree/Separation Agreement.

5.11.4 Delinquent Credit Belonging to the Ex-Spouse

- Delinquent credit belonging to the ex-spouse may be excluded from the debt-to-income calculation when the following apply:
  - Borrower provides a copy of the divorce decree or separation agreement which shows the derogatory accounts belong solely to the ex-spouse; and
  - Collection accounts assigned to an ex-spouse may be excluded from aggregate collection totals with a divorce decree or separation agreement assigning the account solely to the ex-spouse.
- (Refer to *Contingent Liabilities* for additional information)

Documentation Requirements
A copy of the divorce decree or separation agreement showing that the derogatory accounts belong solely to the ex-spouse.

5.11.5 Loans Secured by Financial Assets (401K's)

- Loans secured by a financial asset may be excluded from a borrower's DTI.
- The portion of the assets "used" for the loan must be discounted to reduce the overall value of the asset.

5.11.6 Property Settlement "Buyouts"

- Property settlements ("buyouts") may be excluded from a borrower's debt-to-income ratios provided a transfer of title is obtained to release our borrower from the obligation.

Documentation Requirements
Evidence of transfer of title (i.e. quitclaim deed)

5.12 Credit Inquiries

A written explanation is required for all inquiries within 90-days of the date of the credit report.

If new credit was obtained, it must either show on the credit report or be documented in the loan file with appropriate documentation-regardless of whether there is a balance or not.

If there is a balance on the new account, the debt must be included in the list of debts and included in the debt-to-income ratio calculations.

Documentation Requirements
Signed statement from the borrower verifying whether additional credit was obtained.

5.13 Credit Score

A valid score is generated based upon credit history and credit patterns reflecting the borrower's history. All borrowers must have a valid score from at least two (2) of the following three (3) agencies: Experian (FICO), TransUnion (Empirica), and Equifax (Beacon). Only scores from these agencies are acceptable.

Exclusions to this policy are spouses who are not the primary wage earner.

Each loan will have a Representative Credit Score, a single credit score used for loan qualification. To determine the Representative Credit Score for the loan, determine the score for each individual borrower. Select the middle score when three agency scores are provided and the lower score when only two agency scores are provided.

5.13.1 Representative Credit Score

The Representative Credit Score will be the middle FICO score of the primary wage earner.

5.14 Housing Related Credit Events

5.14.1 Deed-In-Lieu of Foreclosure

- When a borrower voluntarily transfers the ownership of a property through a deed-in-lieu, the program specific seasoning requirements apply.
- Borrowers who do not meet the requirements outlined may also reference the *Recent Housing Event* guidance for additional seasoning requirements.
- The underwriter is responsible for determining if the adverse credit occurrence was due to a single event beyond the borrower's control and is not likely to reoccur (possible explanations include, but are not limited to: illness, divorce, job loss, decline in housing market and/or significant negative equity position with subsequent short sale/foreclosure).
-

Platinum	48-months seasoning since date of deed
Portfolio Select	12-months seasoning since date of deed
Bank Statement	24-months seasoning since date of deed

Documentation Requirements
When program permits – A detailed letter of explanation from the borrower when completed less than two (2) years ago
Evidence deed-in-lieu was completed per program requirements

Deed-In-Lieu's may be subject to pricing and LTV adjustments, please refer to program matrix for details.

5.14.2 Foreclosure

- When a borrower has relinquished a property through a foreclosure, the program specific seasoning requirements must be referenced.
- Borrowers who do not meet the requirements outlined may also reference the *Recent Housing Event* guidance for additional seasoning requirements.
-
- The underwriter is responsible for determining if the adverse credit occurrence was due to a single event beyond the borrower's control and is not likely to reoccur (possible explanations include, but are not limited to: illness, divorce, job loss, decline in housing.
- The credit occurrence must be fully completed prior to the loan closing with no outstanding deficiency balance.
-
- Please refer to *Collections & Charge-Offs* section for additional requirements.
-
- Seasoning is measured from the date of completed sale or final property transfer. If the property was surrendered in a bankruptcy, seasoning is calculated from the completion date of the bankruptcy.
-

Platinum	48-months seasoning since foreclosure completion date
Portfolio Select	12-months seasoning since foreclosure completion date
Bank Statement	24-months seasoning since foreclosure completion date

Documentation Requirements
When program permits – A detailed letter of explanation from the borrower when completed less than two (2) years ago
Proof foreclosure was completed within the program specific timelines

A Foreclosure may be subject to pricing and LTV adjustments, please refer to program matrix for details.

5.14.3 Housing/Mortgage/Rental Payment History

RENT-FREE DEFINITION (modified)
A borrower who has not paid rent/housing in the past 12 months while living with friend or family will NOT be considered rent-free IF they can document rent/mortgage for the 24-months prior. 24 months cancelled checks is required.

Platinum	**Housing history within the last 24-months: 0 x 30** Zero (0) 30-day housing late payment allowed in the past 24-months Rent-free: Allowed Forbearance – 0x30x24 prior to forbearance request. Loan will be ineligible if borrowers missed payments. No waiting period if borrowers made all payments during forbearance (0x30)
Portfolio Select	**Housing history within the last twelve (12) months: 1 x 30** One (1) 30-day housing late payment allowed in the past twelve (12) months **Housing history within the last twelve (12) months: 2x30** Two (2) 30-day housing late payment allowed in the past twelve (12) months **Housing History within the last twenty-four (24) months: 1x60** One (1) 60-day housing late payment allowed in the past twenty-four (24) months Rent-free: Allowed Due to Forbearance (Delinquency prior to March 2020 will not be considered forbearance): Up to 6 consecutive missed payments if due to forbearance if now current with 3 current payments.
Bank Statement	**Housing history within the last twelve (12) months: 1 x 30** One (1) 30-day housing late payment allowed in the past twelve (12) months. Rent-free: Allowed Due to Forbearance (Delinquency prior to March 2020 will not be considered forbearance): Up to 6 consecutive missed payments if due to forbearance if now current with 3 current payments.

For potential pricing and LTV adjustments, please refer to program matrix for details.

5.14.4 Previous Loan Modifications

- Borrowers who entered a modification would follow the foreclosure guidelines (refer to *Foreclosure*) for the specific length of seasoning required. This seasoning requirement will be measured from the date the modification went into effect.

5.14.5 Notice of Default

- The underwriter is responsible for determining if a Notice of Default was due to a single event beyond the borrower's control and is not likely to reoccur (possible explanations include, but are not limited to: illness, divorce, job loss, decline in housing market and/or significant negative equity position with subsequent short sale/foreclosure).
-
- The credit occurrence must be fully completed prior to the loan closing with no outstanding deficiency balance. If the borrower surrenders the property in a bankruptcy, the discharge bankruptcy date will be used as the seasoning date.
-

Platinum	48-months since completion

Portfolio Select	12-months since completion
Bank Statement	24-months since completion

Documentation Requirements
A detailed letter of explanation from the borrower if completed less than two (2) years ago.

5.14.6 Short Sale

- Elapsed time for a Short Sale is measured by comparing the application date of the new mortgage to the completion of action as reported on the credit report or other documentation provided.
- Borrowers who do not meet the requirements outlined may also reference the *Recent Housing Event* guidance for additional seasoning requirements.
- The underwriter is responsible for determining if the adverse credit occurrence was due to a single event beyond the borrower's control and is not likely to reoccur (possible explanations include, but are not limited to: illness, divorce, job loss, decline in housing market and/or significant negative equity position with subsequent short sale/foreclosure.
- The credit occurrence must be fully completed prior to the loan closing with no outstanding deficiency balance.
-

Platinum	48-months seasoning since sale date
Portfolio Select	12-months, unless mortgage was paid as agreed through the conclusion of the short sale
Bank Statement	24-months

A short sale may be subject to pricing and LTV adjustments, please refer to program matrix for details.

Documentation Requirements
Final CD or evidence the loan closed prior to loan program requirements; and
A detailed letter of explanation from the borrower

5.15 Departure Residence

5.15.1 Current Primary Residence Pending Sale

- If the borrower's current primary residence is pending sale but will not close with title transfer prior to the new transaction, both the current and proposed mortgage payments (PITIA) must be used in qualifying for the new loan.

5.15.2 Conversion of Current Primary Residence to a Second Home

- If the borrower is converting a current primary residence to a second home, both the current and proposed mortgage payments (PITIA) must be used in qualifying for the new loan.

5.15.3 Conversion of Current Primary Residence to an Investment Property

- When a borrower currently owns a primary residence, but will be departing from the property and turning it into an investment property, the following program specific requirements are to be followed:
- Rental income from the newly converted property may be used to qualify, using 75% of the current lease when all the documentation requirements listed below are obtained.
- **Note:** Any positive cash flow using the above calculation will not be included as income. The maximum allowed is a “wash” of the current mortgage PITIA.

-

Documentation Requirements
All of the following must be obtained to confirm leasing of the property:
Fully executed lease agreement; and
Security deposit from the tenant; and
Bank statement showing the deposited security funds

5.16 Fraud Alerts

The three (3) national credit repositories have developed automated messaging to help identify possible fraudulent activity on a credit report. These alerts are known as HAWK Alerts. All HAWK Alerts (including Active Duty Alerts) should be properly addressed and resolved prior to submitting the loan to underwriting. An underwriting decision cannot be made without full resolution of the alert.

5.17 Frozen Consumer Files

The credit report must be "unfrozen" to allow Angel Oak to pull a current credit report.

5.18 HELOCS

For qualification purposes, the payment reported on the credit report must be included in the Debt-To-Income ratios. If no payment on the credit report, 1% of the max line amount or the payment verified by the mortgage holder will be used for Debt-To-Income ratios. Newly opened HELOC accounts will use 1% of the max line amount.

No payment amount is required if a HELOC account will remain open after closing and the HELOC balance at the time of application is zero and the line will not be used for closing.

Cash-Out Refinance used to pay off a HELOC: The account must be closed at or prior to loan closing.

5.19 Installment Debt

Debt with a remaining term of ten (10) months or less will be excluded from the borrower's total debt. Borrowers may not pay down debt to ten (10) months.

Documentation Requirements
Installment debts that are paid in full prior to closing:
Supporting documentation, such as a credit supplement or direct verification from the creditor, must be obtained as evidence the debt has been paid in full.

5.20 Lawsuits or Pending Litigation

If the application, title, or credit documents reveal that the borrower is presently involved in a lawsuit or pending litigation, a statement from the borrower's attorney is required. The statement must explain the circumstances of the lawsuit or litigation and discuss the borrower's liability and insurance coverage.

A copy of the complaint and answer may also be needed. The title company closing the loan must be informed of the lawsuit or litigation and provide affirmative coverage of our first lien position.

Documentation Requirements
A statement from the borrower's attorney outlining the circumstances of the lawsuit or litigation, the borrower's liability, and insurance coverage.
A copy of the complaint and answer may also be required.
The title company closing the loan must be notified of the lawsuit or litigation and provide affirmative coverage of our first lien position.

5.21 Lease Obligations

Lease obligations must be included in the Debt-To-Income ratio calculation regardless of time remaining on the lease.

5.22 Material Recurring Non-Debt Obligations

A recurring non-debt obligation is defined as medical expenses for the borrower or a dependent of the borrower that are expected to continue for greater than one (1) year.

If the borrower informs the lender of a recurring non-debt obligation, the loan file must be noted. If the lender believes it could be material to the borrower's ability to repay the loan, escalation is required.

Documentation of material recurring non-debt obligations should be done consistent with AO's ability to repay policies.

5.23 Qualifying Foreign Credit

Not Allowed

5.24 Re-Established Credit

Angel Oak considers re-established credit to include a minimum of one active installment loan with a 24-month history and two (2) active revolving accounts with a twelve (12) month history or three (3) revolving accounts with a twelve (12) month history.

The credit report should not reflect one (1) or more 30, 60, 90, 120 or 150-day delinquencies or any new public records reported during the derogatory credit waiting period and in the twelve (12) months after the waiting period has expired.

No exceptions are allowed to this timeframe. The borrower must also have demonstrated a savings pattern and the ability to manage his or her financial affairs.

5.25 Retirement/Savings Plan Loans

Repayment for loans against a financial asset (retirement/savings plan, insurance policy) may be excluded from the total debt-to-income ratio provided the borrower can repay the debt by liquidating the asset. Value of the asset must be reduced by the amount of the debt when calculating total assets/reserves.

5.26 Revolving Debt

If a revolving account does not list the monthly payment, a payment of 5% of the outstanding balance for each account is to be included in the borrower's debt-to-income ratio.

Documentation supporting the account has been paid in full must be obtained. Refer to the *Asset Documentation* section for sourcing and seasoning requirements.

Accounts not being included in the borrower's debt-to-income calculation must be paid off.

5.27 Satisfaction of Debts to Qualify

Debts to be paid as a condition of approval should be clearly noted as an underwriting condition and asked to be placed on the CD if not paid prior to the loan closing.

5.27.1 Revolving Accounts

- Revolving accounts may be paid off and excluded from the debt-to-income ratio provided the funds used to pay the debt have been satisfactorily verified.

5.27.2 HELOCS

- Paying down the balance in order to meet HCLTV guidelines is not permitted.

5.27.2.1 Cash-out Refinance used to pay off a HELOC:

The account must be closed at or prior to loan closing.

5.27.3 Installment Debts

May be paid off provided the funds used to pay the debt have been satisfactorily verified; Leases may not be paid off to qualify.

5.28 Student Loans

A monthly payment of .50% of the student loan balance may be used in lieu of obtaining documentation when the student loan payment is not reported to the credit bureau. However, if documentation is provided that indicates the actual payment, then that figure must be used in qualifying the borrower.

Actual payment used must be reasonable and indicative of the remaining balance.

5.29 Trade Line Requirements

To qualify as an acceptable trade line, the credit line must be reflected on the borrower's credit report and have activity in the past twelve (12) months (may be closed).

Credit lines on which the borrower is not obligated to make payments are not acceptable for establishing a minimum history.

Examples of unacceptable trade lines include loans in a deferment period, collection or charged-off accounts, accounts discharged through bankruptcy, and authorized user accounts. Student loans may be counted as trade lines as long as they are in repayment and are not deferred.

For primary residence and second home transactions, only the primary wage earner must meet the minimum trade line and credit score requirements listed below.

Platinum	Rent is considered an unacceptable trade line.
Portfolio Select	Mortgage or rental history not reporting on a borrower's credit report may be used as a trade line when canceled checks are provided.
Bank Statement	Mortgage or rental history not reporting on a borrower's credit report may be used as a trade line when canceled checks are provided.

Refer to the *Credit Scores* section to determine the Representative Loan Score.

MINIMUM TRADELINES		
TRADELINES	OCCUPANCY	MINIMUM REQUIREMENTS
Standard Trade Lines	Primary & Second Home	3 trade lines reporting for 12+ months OR 2 trade lines reporting for 24+ months
	Investment	

5.29.1 Insufficient Trade Lines/Non-Traditional Credit

- Non-traditional credit is not allowed. Each borrower must have a valid and usable score as defined in the Credit Scores section.

5.30 Timeshares

For credit review purposes, timeshare obligations will be considered installment loans.

5.31 Undisclosed Debt

If the credit reports or any other documentation reveals that an applicant did not disclose significant debt at the time of the initial application, the originator is responsible for determining if the applicant intended to conceal liabilities.

Documentation Requirements
If the obligation does not belong to the borrower, supporting documentation is required. If there is a non-borrower also on the account, a letter of explanation from the borrower is sufficient.
If the borrower is the obligor on the debt, an account statement and pay history should be obtained to review the account for acceptability. The payment must be included in the debt ratio.

6 Income

The income of each borrower who will be obligated for the mortgage debt and whose income is being relied upon in determining ability to repay must be analyzed to determine whether his/her income level can be reasonably expected to continue.

Income may not be used in calculating the borrower's debt-to-income ratio if it comes from any source that cannot be verified, is not stable, or will not continue.

All income documentation used for qualification must be dated within 90-days of closing.

6.1 Alimony and Child Support

Income received from alimony or child support must continue for at least three (3) years.

Evidence that the borrower has received the payments for the six (6) months preceding the loan application date by way of court ledgers or statements, bank deposit slips, signed tax returns, cancelled checks, or other legally accepted evidence of receipt.

Documentation Requirements
A copy of the court order, (e.g., divorce decree, formal separation agreement, or any other written legal agreement reflecting the terms under which the payments are received and evidencing continuance for three (3) years.

6.2 Annuity Income

Annuities less than twelve (12) months old must be in a non-revocable trust with a minimum term of 40-months in order to use as qualifying income.

A twelve (12) month history of receipt must be verified using 1099's, tax returns, and/or bank statements.

The account asset balance must support the continuance of the monthly payments for a least three (3) years after the closing date.

Documentation Requirements
Letter from issuer of annuity to be obtained stating that it has been set up on periodic withdrawal, amount of withdrawal, duration and balance; and
Proof of receipt documented with the most recent two (2) years signed Federal Tax Returns, two (2) most recent bank statements or deposit slips.
Documentation must confirm the amount, duration, and frequency of the income, as well as the likelihood of continuance for three (3) years.

6.3 Asset Depletion Program

Borrowers seeking to supplement their qualifying income using a documented assets calculation must follow the requirements as outlined within the Asset Depletion Program.

6.4 Asset Qualifier Program

Borrowers seeking to qualify utilizing documented assets, may be eligible under the Asset Qualifier Program.

6.5 Bank Statement Program

Borrowers seeking to document income using business or personal bank statements may be eligible under the *Bank Statement Program*.

6.6 Bonus Income

Earnings should be level or increasing from one year to the next. A two (2) year average should be established with the documentation provided.

Documentation Requirements
A fully completed Verification of Employment; and
Two (2) most recent paystubs covering a 30-day period (dated no earlier than 30-days prior to the initial loan application date); and
Most recent 2-years W-2's; and
A Verbal Verification of Employment

6.7 Capital Gains

The income is recurring and may be considered in qualifying.

If a capital gain appears to be a onetime occurrence, it should not be considered when calculating income available.

For the income to be considered stable and likely to continue, the underwriter must document sufficient assets to show the borrower will continue receiving the capital gains for a minimum of three (3) years from note date.

If the income is declining and/or there will be no asset base to generate the capital gains, it cannot be used for qualification purposes.

If assets that generated capital gains are being sold as part of the mortgage transaction, the income from capital gains must be reduced by a percentage equal to the percentage reduction in the value of the assets that generated the income.

Documentation Requirements
Two (2) years tax returns; and
Proof of the existing assets

6.8 Change of Jobs

Frequent job changes to advance within the same line of work may be considered favorable. Job changes without advancement or in different fields of work should carefully be reviewed to ensure consistency of increasing income levels and the likelihood of continued stable employment.

When a borrower has recently changed jobs and cannot provide pay stubs covering a 30-day period additional documentation may be obtained from the new employer.

Documentation Requirements
A written Verification of Employment from the new employer; or
A current & previous pay stub as long as they support a continuous and consistent income stream.
Explanation letter for any employment gap greater than 30 days.

6.9 Commission Income

When commission income is used to determine qualifying income:

- A two (2) year average will be used; and
- The earnings should be level or increasing from one year to the next; and
- The earnings must reasonably be expected to continue.

A borrower on his current job for less than two years with a minimum two (2) year history of receiving commission in the same line of work may also qualify to use commission earnings.

If there are large fluctuations, the borrower must provide a written explanation to support the increase or decrease in income. Additional supporting documentation is required to use commission income for qualification when documentation shows a decrease from one year to the next.

See also *Declining Income* Section for additional considerations.

With borrowers that receive a draw against the commission earnings, the draw income is not to be considered to be in addition to the commission income. Draws are only to be considered income paid in advance of receiving commissions, where the amount is then subtracted once the commissions are earned.

Documentation Requirements
The borrower's most recent two (2) years personal Federal Tax Returns; and
Two (2) current pay stubs covering a 30-day period; and
If income significantly fluctuates year over year a written letter of explanation is required

6.10 Declining Income

Income showing a consistent decline over the prior years should not be considered as stable or usable income for qualification purposes.

In instances where there is sufficient information to support the use of the income, the most recent lower income over the prior two (2) year period must be used and may not be averaged.

Documentation Requirements
An explanation for the decline should be obtained from the borrower and/or employer.

6.11 Disability Income – Long Term

Long-term disability may not have a defined expiration date & absent an expiration date must be expected to continue. The requirement for re-evaluation of benefits is not considered a defined expiration date.

Documentation must show the income is stable and level over the last two (2) years, confirm the payment amount and frequency, and define conditions for termination of payments (if applicable).

Disability benefits provided by an employer (i.e. workers compensation) or private insurer, which have a pre-determined expiration date or are dependent on the depletion of an asset account or other limited benefit, require documentation of likelihood of continuance for three (3) years.

Documentation Requirements
Bank statements and most recent check copies; and
An award letter

6.12 Disability Income – Temporary

Documentation must show the income is stable and level and confirm the payment amount.

Documentation Requirements
All of the following documentation:
A copy of the award letter(s); and
A verification from the payer (includes the insurer, employer or governmental agency) and letters from the Borrower; and
A letter of explanation from the borrower to confirm his/her intent to go back to work; and
If the award letter does not specifically indicate a defined expiration date within three years of loan origination, Angel Oak shall consider the income effective and likely to continue

6.13 Dividend and Interest Income

Dividend and interest income may be used as qualifying income.

Sufficient assets should remain after closing to continue to generate an acceptable level of earnings.

If the assets that generated the dividend and/or interest income are being sold as part of the mortgage transaction, the qualifying income must be reduced by a percentage equal to the percentage reduction in the value of the assets that generated the income.

Earnings should generally be averaged over the time period verified when current earnings are consistent with historical dividend and interest earnings.

Dividend and Interest income cannot be combined with *Asset Depletion*.

Documentation Requirements
Two (2) most recent years Federal Tax Returns received supporting a 2-year history of receipt; and
Verification of stock asset values no older than 30-days at closing.

6.14 Employed by Family Owned Business of Interested Party to the Transaction

If the borrower is employed by a relative, or a closely held family business or an interested party (this includes the seller, builder, real estate agent or an individual who will benefit from the sale of the property), the following documentation is required.

The loan file must document that the borrower is employed by the relative, closely held family business or interested party, has less than 25% interest in the business and is paid in the form of wages. If the borrower's interest in the business exceeds 25%, the borrower will be considered self-employed for qualifying purposes and must be documented as such.

Documentation Requirements
VOE; and
Most recent two (2) years signed federal income tax returns including all schedules; and
Two (2) current pay stubs covering a 30-day period; and
An Executed IRS Form 4506-T; and
Two years tax transcripts verifying W-2 income as well as all income listed on the tax returns.

6.15 Employment Gaps

Employment gaps over 60-days must be explained in writing by the borrower.

Documentation Requirements
The borrower's written explanation of any gaps greater than 60-days.

6.16 Employment History

Employment must be stable with at least a two (2) year history in the same job or jobs in the same field. Income from self-employment is considered stable if the borrower has been self-employed for two (2) or more years.

6.17 Employment Offer

May be considered in qualifying income if documentation is provided to show the borrower began the new employment prior to closing.

Documentation Requirements
A copy of the written offer of employment; and
Verbal Verification of Employment prior to closing must confirm the borrower has started in the new employment position

6.18 Foster Income

Foster care income may be considered if there is a two (2) year history of receipt and is expected to continue for the next three (3) years.

Documentation must show the number of foster children, their ages and the length of time of care. Use the documentation provided to create an average monthly income.

Income for children who will reach the age of nineteen (19) within three (3) years may not be considered.

Documentation Requirements
Verify a three (3) year history of receipt of income with a letter from the paying agency, and
Copies of deposit slips or bank statements; or
Copies of checks from relevant paying agency
Two (2) years personal federal income tax returns

6.19 Foreign Income

U.S. Citizens and Permanent Resident Aliens only

Borrowers may use foreign income to qualify if the following documentation requirements are met:

- Income is coming from an acceptable source and is converted to U.S. dollars
- It can be verified and documented
- It is considered to be stable and likely to continue for a minimum of three (3) years
- Income from sanctioned countries as administered by OFAC is not allowed

Documentation Requirements
Most recent two (2) years signed Federal Income Tax Returns filed with the IRS evidencing foreign income

6.20 Full Documentation

6.20.1 Salaried and Wage Earner

- Income derived from a consistent hourly, weekly or monthly wage, must be verified.
-

Documentation Requirements
All of the following must be obtained
W-2s for the most recent two (2) years
Pay stub(s) covering the most recent 30-day period providing year-to-date earnings; and
Verbal Verification of Employment completed within ten (10) days of closing; and
Signed and executed 4506-T

6.20.2 Pay Stubs and W-2s

- Pay stubs covering a 30-day period, dated no earlier than 30-days prior to the initial loan application date, and including all year-to-date earnings should be obtained.
- Documents cannot be older than 90-days on the Note date.
-

Documentation Requirements
Pay stubs and W-2s must be typed or computer generated. They should provide the borrower's full name, address, employer name, year-to-date earnings, and rate of pay.
If pay stubs reflects garnishments (child support, IRS, etc.) or any loan deductions, additional information will be required to determine if a monthly payment should be included in the debt-to- income ratio calculation.
W-2s should reflect a nine-digit Employer ID Number (EIN). In addition, Social Security and Medicare withholding should be calculated at the appropriate rates on the W-2s and pay stubs.

6.20.3 Hourly Wages

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

6.20.4 Self-Employment

- A borrower is considered self-employed with 25% or more ownership interest in a business. The business may be a sole proprietorship, general partnership, limited partnership, corporation, or S-Corporation.
- (Refer to the *Self-Employment* section for additional requirements)

6.20.5 Cash Flow Analysis

- The underwriter must prepare a written evaluation of the analysis of a self-employed borrower's personal income, including the business income or loss, reported on the borrower's personal income tax returns. A copy of the written analysis must be included in the loan file.
- (Refer to the *Self-Employment* section for additional requirements)

6.20.6 Tax Returns

- Tax returns, when required, should contain all schedules and attachments.
- An IRS 4506-T must be signed by all borrowers.
- Borrowers receiving only W-2 income are not required to provide tax returns (applicable for all W-2 borrowers regardless of whether the income is received from commissions or bonus income).
-
-
-
-
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6.21 Gratuity/Tip Income

May be used as qualifying income if it can be verified that the borrower has received tip income for the last two (2) years and the employer indicates that it is likely to continue.

The average of the past two (2) years tip income will be used and supported by the pay stub in all cases.

Documentation Requirements
Most recent two (2) years personal Federal Tax Returns reflecting verified tip income; and
A current pay stub showing year-to-date earnings

6.22 Guaranteed/Lump Sum Distributions

Proceeds from the sale of investments held in a 401(k) or IRA account are not eligible as an income source.

Documentation Requirements
Two (2) years IRS transcripts required for all loans, excluding the *Bank Statement program*.
Executed 4506 -T by all borrowers at the time of application and a new form to be signed at closing.

6.23 IRS 4506 Tax Transcripts

IRS Form 4506-T must be completed and signed by all borrowers at both closing and application.

The form must be executed prior to closing.

Documentation received from executing the 4506-T must be reviewed and compared to the qualifying income to confirm consistency. Results from processing the 4506-T should generally be equal to or greater than the income used to qualify the loan. Any inconsistencies between the 4506-T results and qualifying income should be addressed by the underwriter.

Management may suspend this process at any time if the IRS is not processing 4506T's or are weeks behind.

Please refer to the *Bank Statement Program* for additional requirements.

6.24 Ineligible Income Sources

- Boarder Income
- Inheritance Income
- Leave of Absence
- Projected Income
- Trailing Co-Borrower Income
- Unreported wages
- Educational Benefits
- Expense Account Reimbursement
- Gambling Winnings (except lottery – continuance for 5 or more years)
- Stock Options
- Refunds of Federal, State or local taxes (except on Bank Statement loans)

6.25 Members of the Clergy

Rental or housing allowance received, may be considered income for qualifying the borrower. Housing allowances for Ministers is considered non-taxable income and can be grossed up for qualifying purposes.

Two (2) years average of monthly income required.

Documentation Requirements
Verification of Employment; and
Prior two (2) years W-2's
When a housing allowance is used for qualifying income, obtain proof of receipt of income for two (2) years and proof that it will continue for three (3) years with a copy of the monthly allotment statement and a copy of the employment contract, if applicable.
If the borrower receives 1099's, he/she is considered self-employed and should be documented as such.
When applicable, borrowers with self-employed income classified by the IRS as exempt must provide IRS form 4361.

6.26 Military Benefits

Documentation Requirements
Most recent LES (Leave and Earnings Statement)
Flight pay, quarters allowance, and clothing allowance can be used as qualifying income if the LES shows the payment amount(s) and confirms future continuance.

6.27 Miscellaneous Income

Payments to Sole Proprietors or contract individuals is reported on IRS Form 1099 form and included in the borrower's Schedule C.

Two (2) years of 1099 forms are not required when a borrower changes from being paid W-2s to 1099s while working for the same employer in the same position. Documentation from the employer should be obtained to verify the borrower is not responsible for additional expenses.

Borrowers seeking to document income using 1099 statements may be eligible under the *Bank Statement Program*

Documentation Requirements
Most recent two (2) years Federal Tax Returns (IRS Form 1040
If the borrower changes from W-2s to 1099 with the same employer, obtain documentation from the employer verifying that the borrower is not responsible for additional expenses

6.28 Non-Taxable Income

Non-taxable income can be grossed up by 25% if regular, reoccurring and will continue for the next three (3) years.

Example of non-taxable income may include military allowances for clothing, quarters, and subsistence, child support, worker's compensation, disability retirement, social security income, clergy housing allowance, foster care income, food stamps, income from municipal bonds, and certain types of insurance benefits.

Some income types may contain both taxable and non-taxable income. Federal Tax Returns may be required to accurately determine the non-taxable portion.

Documentation Requirements
Refer to specific income type for documentation requirements

6.29 Notes Receivable

Income from a Note may be used to qualify providing the borrower can provide a two (2) year history of receipt and income is regular, reoccurring and will continue for the next three (3) years.

A recently executed Note/Contract (less than 24-months) may not be used as qualifying income.

Documentation Requirements
A copy of the Note confirming the amount, frequency and duration of payments; and
Two (2) years tax returns (including schedule B)

6.30 Overtime Income

- Earnings should be level or increasing from one year to the next.
- Must be reasonably expected to continue
  The income must be average over two (2) year period and the most recent YTD paystub should support the calculated average income.

Documentation Requirements
Two (2) most recent pay stubs – overtime income must be broken out separately;
Most recent two (2) years W-2's; and
Verbal Verification of Employment

6.31 Part-Time or Second Job Income

A two (2) year history of uninterrupted income is required, as well as, a strong likelihood of continuance;

The income from one of these sources should be averaged as hours usually vary; the income should be level or increasing from one year to the next.

Documentation Requirements
Two (2) most recent pay stubs for the previous 30-days reflecting YTD income;
Most recent two (2) years W-2's; and
Verbal Verification of Employment

6.32 Public Assistance

Income from Government Assistance Programs, such as Food Stamps, Aid to Dependent Children, or Welfare, may be used as qualifying income provided the income:

- Has been received for the past two (2) years; and
  Can be expected to continue for a minimum of three years from the date of the mortgage application.

Documentation Requirements
Letters or exhibits from the paying agency that state the amount, frequency, and duration of the benefit; or
Two (2) months bank statements or pay stubs evidencing receipt of payments

6.33 Re-Entering the Workforce

Borrowers re-entering the Workforce after an extended absence, will be considered on a case-by-case basis.

The borrower must be employed with their current employer for a minimum of six (6) months.

Documentation Requirements
A two (2) year work history prior to the absence must be documented

6.34 Relocation Earnings and Income

- If a borrower has recently relocated or will be relocating for his or her employment (excluding self-employed borrowers), the income may still be used for qualifying, but the following requirements should be met:
- Typically, income generated from qualified professionals meet this standard such as medical, teaching, etc.
- The new employment should be active by the first day of closing or before the first new mortgage payment is due;
  The loan approval should contain a condition for the broker or borrower to provide the first pay stub within 45 days of closing the loan.

Documentation Requirements
Fully executed employment agreement or offer letter with no contingencies
Verification from the employer that the borrower will receive benefits to facilitate the move
A Verbal Verification of Employment with the new employer prior to closing;
First pay stub within 45 days of closing the loan

6.35 Rental Income

Rental income generated from 1-4-unit investment properties may be used to determine the borrowers qualifying income. All rental properties and income must be disclosed on the loan application.

- Income calculation for properties owned during the previous tax year, must be calculated based on income reported on 1040s.
- Rental income from the borrower's primary residence or second home may not be used to determine the borrowers qualifying income.
- When a borrower qualifies with the full investment property PITIA included in the debt-to-income ratio, no further documentation of rental income for the property is required.
- 2 Unit Primary Residence - Rental income from the non-owner occupied unit cannot be used in the borrowers qualifying income.

Schedule E Rental Income Calculation

Using the borrowers most recent tax year, Schedule E, the underwriter may add back depreciation, interest, HOA, taxes and insurance to the net income listed on the Schedule E.

Divide the total adjusted net income by twelve (12) for the monthly figure and subtract the PITIA to arrive at the rental income/loss.

- Net rental losses should be included in the borrower's ratio as a liability.
- Positive income should be included in the borrower's monthly income.

Current Lease Agreements – Rental Income Calculation

- Multiply the gross rent by 75% and subtract the PITIA to arrive at the rental income/loss.
- Allowable Rent Calculations:

Positive Income = PITIA payment only, creating a payment wash only.

Negative Income = Must be added back to the borrower's ratio as a liability.

Properties Owned for Less Than One (1) Year – Rental Income Calculation.

- 75% of the current lease; or
- 75% of the appraiser's opinion of rent on appraisal form 1007/216; or
  Cash flow analysis of the Schedule E from the most recent year's federal income tax return (if applicable).

Documentation Requirements
One (1) years personal income tax returns including Schedule E
If a property is not listed on the Schedule E (due to the property being acquired since the last filed tax return), obtain a copy of the current, signed one (1) year lease for the rental property. 75% of the gross rental income may be used.
If the lease term has expired and is presently on a month-to-month basis, Angel Oak reserves the right to require evidence that the lease has continued without interruption.
If applicable, Rental Loss Coverage Policy

6.36 Rental Income from New Property Acquired

Rental income from an investment property being acquired through a purchase transaction may be used to qualify, using the lesser of:

- 75% of the current executed lease agreement (evidence of deposit must also be obtained), or
- 75% of the appraiser's opinion of rent on appraisal form 1007/216

If a lease does not exist and rental income is calculated using only the appraiser's opinion of rent, please refer to *Reserves* for additional requirements.

6.37 Rental Income from the Subject Property

Form #1007 for all Single Family Residences or Form #216 for all 2-4 Unit investment properties is required to supplement the appraisal report (1004 or 2055) if rental income is being used to qualify the borrower.

If the loan is approved and qualified using the full PITIA payment of the rental property, then Form #1007 or #216 is not required.

Rental income must be calculated as referenced in the *Rental Income* Section.

Documentation Requirements
One (1) years personal income tax returns including Schedule E if previously owned; or
If more recently acquired; a copy of the fully executed lease agreement should be obtained.

6.38 Restricted Stock

Restricted stock may be used as qualifying income when received as a part of the borrower's compensation package.

A minimum two (2) year average will be used to determine qualifying income.

Documentation Requirements
Most Recent two (2) years signed Federal Tax Returns; and
Year to date pay statement covering a thirty (30) day period; and
Year to date or quarterly statement from the restricted stock account

6.39 Retirement/Pension Income

If the borrower is of retirement age, proof of continuance does not have to be documented when the income is received from corporate, government or military retirement/pension.

If retirement income is in the form of monthly annuity distributions, such as 401(k) or IRA, proof of three (3) years continuance is required.

There are certain situations where additional documentation would be required to determine what portion of a borrower's income is non-taxable. The non-taxable portion may be grossed up.

Refer to the *Non-Taxable Income* Section for additional information.

A borrower presently employed but anticipating retirement within three (3) years from note date must be evaluated upon the verified anticipated retirement income. A combination of present earnings and future retirement income does not represent a supportable level of earnings. Effective income for borrowers planning to retire (or end employment for other reasons) during the three (3) year period must include the amount of documented retirement or other benefits to be received, Social Security payments, or other payments expected to be received in retirement.

Documentation Requirements
Verification of prior employment from the organization providing the income;
Copies of award/benefit letters with evidence of recent receipt of income (two (2) most recent bank statements showing direct deposits, copies of checks, two (2) years W-2s/1099s, etc.); and
The most recent two (2) years personal Federal Tax Returns or 1099 forms or W-2s reflecting receipt of income

6.40 Seasonal Income

Seasonal income may be considered if the applicant has worked the same job in season for the past two (2) years and expects to be rehired for the next season.

The written Verification of Employment must reference the likelihood of borrower's rehire.

Seasonal income from W-2s and pay stubs should be averaged over a (2) year period.

Documentation Requirements
Written Verification of Employment; and
Most recent two (2) years W-2's

6.41 Self Employed Borrowers

Angel Oak considers any individual to be self-employed if the borrower(s) has a 25% or greater ownership interest in a business.

Self-employed borrowers should have a consecutive, level or increasing earnings trend that supports a two (2) year history of self-employment with the same business and at the same location.

Documentation Requirements
Most recent two (2) years tax returns; and
Most recently filed prior two (2) years signed Federal Business Returns. (For Sub-S & Corp.); and.)
Unaudited YTD P&L Statement

6.41.1 Sole Proprietorship

- A sole proprietorship is a business structure in which individual and his or her company are considered a single entity for tax and liability purposes. Income and losses are reported on the owner's individual Federal Tax Return.
-

Documentation Requirements
Most recently filed prior two (2) years individual federal tax returns (with all schedules attached), including W-2's and/or 1099's);
YTD P&L Statement if the loan application is dated > 90 days after the end for the business's tax year
Executed IRS Form 4506-T signed by all borrowers
Verification of the existence of the business required within ten (10) days of closing
A copy of the Underwriter's written analysis of income must be included in the loan file.

6.41.2 Partnership

- A partnership is a business organization in which two or more individuals manage and operate the business. The partners share profits and losses and control of the business. Partnerships fall into two main categories: general and limited.
  - **General Partnerships** - Each partner is personally liable for the debts of the whole business. Personal liability to the partnership creditors will continue even after the partnership is dissolved.
  - **Limited Partnerships** - One or more partners in the business is liable only to the extent of the amount that partner has invested. Limited partners are generally not personally liable for the debts of the company. Normally, a limited partnership exists for investment and tax purposes.
  - If the borrower is a limited partner with < 50% ownership, partnership tax returns are not required.

Documentation Requirements
Most recently filed prior two (2) years Individual Federal Tax Returns (with all schedules attached); and
Most recent two (2) years W-2's, if applicable; and
Most recent two (2) years K-1's; and
Most recently filed prior two (2) years signed Partnership Returns (with all schedules attached); and
Signed and executed IRS Form 4506-T signed by all borrowers; and
YTD P&L Statement if the loan application is dated > 90-days after the end of the business's tax year; and
Verification of the existence of the business required within ten (10) days of closing; and
A copy of the Underwriter's written analysis of income must be included in the loan file.

6.41.3 Corporations

- A corporation is a legal entity that is separate and distinct from its owners. If a borrower has more than 25% ownership in a corporation, they are considered self-employed. A borrower that is self- employed as a corporate officer will receive a pay stub and W-2, and will report income on his or her personal tax returns. Corporate income or losses are reported on the corporate tax returns (IRS Form 1120).
- **NOTE:** Notes, mortgages, and bonds payable in less than one-year will be ignored if the amount is similar over the past 2-years. If not:
  - Proof of sufficient business assets to pay; or
  - Reduce from income; or
  - Proof the debt will roll over

Documentation Requirements
Most recent two (2) years Federal Tax Returns (IRS Form 1040) complete with all schedules
Most recent two (2) years W-2s; and
Most recent two (2) years Corporate Tax Returns (IRS Form 1120) complete with all schedules
Two (2) current pay statements covering a 30-day period

6.41.4 S Corporations (Subchapter S Corporations)

- S Corporation (S-Corp) is a type of corporation which enables the company to have the benefits of a corporation but be taxed as if it were a partnership. S-Corps are generally small corporations. The profit of the corporation is given to each owner according to his or her share of ownership. The adjusted profit is then divided by the borrower's share of ownership and combined with W-2 income used for qualifying. Income is reported with both a W-2 and K-1 (reporting on the Schedule E) or only with a K-1.
- **NOTE:** Notes, mortgages, and bonds payable in less than one-year will be ignored if the amount is similar over the past two (2) years. If not:
  - Proof of sufficient business assets to pay; or
  - Reduce from income; or
  - Proof the debt will roll over

Documentation Requirements
Obtain the most recent:
Two (2) years Federal Tax Returns (IRS Form 1040) complete with all schedules; and
Two (2) years W-2s, if applicable; and
Two (2) years Corporate Tax Returns (IRS Form 1120-S) complete with all schedules; and
Two (2)-years K-1s

6.41.5 Non-Borrowing Spouse Business Loss

- Losses associated with a non-borrowing spouses' business will not be considered as a deduction to the Borrowing spouses' income, provided documentation can be provided evidencing the borrower has no ownership interest in the business.
- If the property is located in a community property state, losses must be considered.

6.41.6 Existence of Business

- Verification of the existence of the business required within 10 calendar days prior to the note date by both:
  - A third party, such as a CPA, regulatory agency, or the applicable licensing bureau, if possible; OR
  - A phone listing and address verified for the borrower's business using a telephone book, the internet, or directory assistance.
- The source of the information obtained and the name and title of the AOMS employee who obtained the information must be documented.

6.42 Social Security or Disability Income

Social Security income for retirement or long-term disability that the borrower is drawing from his or her own account/work record will not have a defined expiration date and must be expected to continue.

However, if Social Security benefits are being paid as a benefit for a family member of the benefit owner, that income may be used in qualifying if the lender obtains documentation that confirms the remaining term is at least three (3) years from the date of the mortgage application.

Document regular receipt of payments, as verified by the following, depending on the type of benefit and the relationship of the beneficiary (self or other) as shown in the table below.

Please refer to *Non-Taxable* Income Section for additional qualifying information.

Type of Benefit	Borrower is drawing SS Benefits from own account/work record	Borrower is drawing SS benefits from another person's account/work record
Retirement	Social Security Administrator's (SSA) Award letter, or Proof of current receipt	SSA Award letter, Proof of current receipt; and 3 year continuance (e.g., verification of beneficiary's age)
Disability		
Survivor Benefits	N/A	
Supplement Security Income (SSI)	SSA Award letter, and Proof of current receipt	N/A

6.43 Teachers Income

Teachers generally are paid on a nine (9) month, ten (10) month or twelve (12) month contract; however, the income should be annualized for qualification purposes.

Documentation Requirements
Borrower's two (2) most recent pay stubs dated within 30-days of the application date; or
A copy of a valid unexpired contract;
Verify the term of payment

6.44 Tips and Gratuities

Tips and gratuity income may be considered if the income is typical for borrower's occupation (i.e., waitperson, taxi driver, etc.);

- Receipt of tip and gratuity income for two (2) years required.

The income should be averaged over the time period verified. If the tip income is not reported on the pay stubs or tax returns, then it may not be included in qualifying income.

Documentation Requirements
Most recent year-to-date pay stubs; and
The most recent two (2) years Federal Tax Returns

6.44.1 Trust Income

- Income received from a trust must be verified with a history of distribution to the borrower for a minimum of at least three (3) months.
- Trust income must be irrevocable and continue for a minimum of three (3) years to be considered qualifying income.
- The Borrower must be a beneficiary to the Trust.
- The Trust may not have any restrictive or a beneficiary clause that would stop, reduce, or restrict payment benefits to the borrower.

Documentation Requirements
A statement from the trustee to verify the amount, frequency and duration of the income, and that it has a three (3) month history of receipt; and
A copy of the trust agreement and verification of sufficient trust assets to confirm the likelihood of three (3) years continuance; and
Two (2) years Federal Tax Returns (all schedules)

6.45 Unemployment Income

To be considered as qualifying income, unemployment benefits may only be received seasonally.

The borrower must have a two (2) year history of receipt of income from a seasonal job and unemployment benefits must be documented with the most recent two (2) years Federal Tax Returns.

Unemployment income must be common and customary for the employment type as demonstrated with the loan file documentation.

- Unemployment income should be averaged over two (2) years.

The borrower must be on the job at the time of application and at the time of closing.

Additional required documents include letters or exhibits from the paying agency, which must include the amount, frequency and duration of the benefits. Unemployment benefits from a current job loss are not acceptable.

Documentation Requirements
The most recent two (2) years Federal Tax Returns; and
Additional required documents include letters or exhibits from the paying agency, which must include the amount, frequency and duration of the benefits.

6.46 Union Worker

The income should be averaged over a two (2) year period.

The documentation provided should support current, active employment.

Documentation Requirements
The most recent two (2) years ; or
The most recent two (2) years W-2's and paystubs from the union or all employers (if the W2 comes from the employer and not the union); and
A letter from the union verifying the borrower's is current and in good standing with the union, or a VOE from the union (or current/past employer(s)) to verify YTD earnings and employment.

6.47 Unreimbursed Business Expenses

Unreimbursed business expenses will not be deducted from wage-earners qualifying income, regardless of income type.

6.48 VA Benefits

Must be expected to continue a minimum of three (3) years from the application date. VA educational benefits are not eligible for qualifying income.

Documentation Requirements
Copy of award letter or distribution forms

6.49 Verbal Verification of Employment

A verbal verification of employment must be completed within ten (10) days of the note date.

Military employment may be verified with the Leave and Earnings Statement (LES) dated within 30 calendar days of closing in lieu of any Verbal VOE.

Independent Vendors (i.e. The Work Number®):

The verification will be valid if the "As of Date" on the verification does not exceed 30 days. If the verification is older than 30-days, an update or new verification must be requested. In all cases, the "date pulled" or report date must still be within the 72-hours.

The Verbal Verification of Employment may not be greater than 30 days on the Note Date.

7 Conflict of Interest

7.1 Conflicts

The Loan Originator[1] may not represent themselves on any transaction in which they are a party to or have any financial interests in, including, but not limited to owner, buyer, seller, realtor or broker for the subject property.

- The Loan Originator must be independent of the transaction. Examples of transactions involving conflicts of interest:
- The Loan Originator or employee representing a spouse if they are a buyer or seller on a transaction
- Loan for spouses acting as buyer must be originated through the approved employee loan process
- Loan for spouses acting as a buyer or a seller must be referred to a different Loan Originator within the organization.
- The spouse Loan Originator or employee acting as realtors or brokers for the subject property
- The relationship must be disclosed in a letter to the file.
- Spouses may not act as settlement agent, be a principal of the settlement agency, notary or appraiser for the transaction;
- Borrower must be independent from the settlement agent
- Settlement agents/attorneys may not represent themselves or any partner in transactions without full disclosure
- Funding of loans in which the settlement agent is representing themselves or a partner must be done through an approved third party;
- Settlement agents/attorneys receiving funds for loan proceeds may not exercise power of attorney for borrowers who are associated with the settlement agent/attorney through partnerships or corporations;
- Transactions allowing representation by a Loan Originator or employee:
  - Representation of related parties acting as owners, buyers, sellers, realtors or brokers for the subject property subject to non-arm length guidelines:
  - Examples would be parents, siblings, children, other family members and significant others who do not share substantial joint assets or liabilities with the Loan Originator or employee
  - The relationship must be disclosed in a letter to the file
  - A second review may be required at the underwriter’s discretion
- When a spouse or other related person is a referral source on a transaction, the Loan Originator or employee must disclose the relationship in a letter to the file and obtain all information necessary to complete the file independent of the referral source.

[1] For Angel Oak Mortgage Solutions LLC, the Loan Originator is referred to as an “Account Executive”.

For Angel Oak Home Loans LLC, the Loan Originator is referred to as a “Licensed Mortgage Advisor”.

8 Contributions

8.1 Borrower Contributions

Minimum borrower contribution of 5% is required on all purchase transactions.

8.1.1 Buy-Downs – Temporary

- Temporary buy downs are not allowed

8.1.2 Contributions by Interested Parties

- Interested party contributions are either financing concessions or sales concessions.
  - Primary Residence and Second Home - 6%
  - Investment Properties – 6%

8.1.3 Financing Concessions

- A financing concession is a financial contribution that provides a benefit to the borrower in the financing transaction. It is a payment or credit related to acquiring the property or paying for financing terms. The cumulative amount is subject to the above limitations, and contributions in excess of those amounts are considered sales concessions.
- Amounts include, but are not limited to:
  - Appraisal Fees
  - Attorney Fees
  - Buydown Fees
  - Discount Points
  - Insurance Premiums
  - Origination Fees
  - Prepaid Items
  - Property Taxes
  - Survey Charges
  - Tax Service Fees
  - Title Insurance Charges
  - Transfer Taxes/Stamps

8.1.4 Payment Abatements

- Payment abatements are ineligible.

8.1.5 Sales Concessions

- A sales concession is one that is not integral to the financing transaction. ALL sales concessions must be deducted from the sales price when calculating the LTV and CLTV for underwriting and eligibility purposes.
- Include, but are not limited to:
  - Automobiles
  - Cash
  - Decorator Allowance
  - Electronics (e.g. TV's)
  - Furniture
  - Giveaways
  - Moving Costs

8.1.6 Realtor Commissions or Sales Incentives

- When calculating the LTV, amounts > 10% must be subtracted from the sales price. (I.e. commissions paid to the realtor and a finder's fee or bonus paid to a realtor or other third party).

9 Mortgage Insurance

Mortgage insurance is not required.

10 Occupancy

10.1 Primary Residence

A primary residence is a property occupied by the borrower as their principle residence (may also be referred to as owner-occupied). Primary residences are eligible for financing and are restricted to single family or duplexes only.

To qualify as a primary residence, the transaction must meet each of the following criteria:

- The property is located in the same general area as the borrower's employment; and
- The borrower intends to occupy the subject property for the majority of the year; and
- The property possesses physical characteristics that accommodate the borrower's family.

Duplexes: Rental income on 2nd unit will not be used as rental income unless full documentation and reported on tax returns.

10.2 Second Home

A second home is a dwelling occupied by the borrower in addition to their primary residence (may also be referred to as a vacation home).

Second homes are eligible for financing and are restricted to one-unit dwellings only.

Typical second homes should meet the following criteria:

- The property must be located a reasonable distance away from the borrower's primary residence; and
- The property must be occupied by the borrower for some portion of the year; and
- The property is suitable for year-round occupancy; and
- Borrower must have exclusive control over the property; and
- The property must not be subject to any timeshare arrangements, rental pools or other agreements which require the borrower to rent the subject property or otherwise give control of the subject property to a management firm.

10.3 Investment Property

An investment property is an income-producing property that the borrower does not occupy (may also be referred to as non-owner occupied).

11 Qualifying Ratios, Residual Income and Payment Shock

11.1 Debt-To-Income Ratio

	OCCUPANCY	HOUSING RATIO	DTI
Platinum	Primary Residence	40%	50%
	Second Home	N/A	50%
	Investment Properties	N/A	50%
	OCCUPANCY	HOUSING RATIO	DTI
Portfolio Select	Primary Residence	40%	50%
	Second Home	N/A	50%
	Investment Properties	N/A	50%
	OCCUPANCY	HOUSING RATIO	DTI
Bank Statement	Primary Residence	40%	50%
	Second Home	N/A	50%
	Investment Properties	N/A	50%

A refinance transaction demonstrates a net tangible benefit and will improve the borrower's overall credit position or the borrower can demonstrate compensating factors.

11.2 Payment Shock

See *First-Time Home Buyers* for additional information.

Platinum	Maximum 450%
Portfolio Select	Maximum 450%
Bank Statement	Maximum 450%

11.3 Payment Shock Calculations

Payment shock is calculated by dividing new housing payment (PITIA) by the current (existing) housing payment (PITIA) minus 1.00%. The result will be the percentage of increase.

Example:

Proposed Housing Payment (PITIA): $ 2,100

Current Housing Payment (PITIA): $ 1,200

$ 2,100 divided by $ 1,200 = 1.75 or a 75% increase.

- Payment shock is not considered for borrowers who have less than a twelve (12) month housing history, do not have a current housing payment, or if the home is owned free and clear.
- When a borrower housing history is less than twelve (12) months, the payment made for the longest period during the last 24-months should be used.

11.4 Qualifying Rate

- All loans must be qualified at the higher of the start rate (note rate) or fully indexed rate (index + margin).
- All loans must be qualified using the fully amortizing PITIA payment
- Interest Only loan are qualified using the full PITIA payment amortized over a period of 10-years less the Note term

11.5 Residual Income

Residual Income is required for all primary residence transactions using the following calculations:

Residual Income = Gross Monthly Income – Total Debts.

Please refer to program matrix for program requirements.

12 Transaction Types

12.1 Purchase

The lesser of the purchase price or appraised value of the subject property is used to calculate the LTV.

The seller must have been the vested owner of the subject property for a minimum of 90-days, measured from the date the seller takes title to the date the sales contract is signed, unless the property was a foreclosure and being sold by the foreclosing entity.

Documentation Requirements
A copy of the fully executed purchase contract and all attachments or addenda is required

12.1.1 Properties Sold at Auction

Properties sold at auction may be considered on a case-by-case basis

- The property must be habitable; and
- The transaction must be arms-length; and
- No gaps in the chain of title are allowed – a clear transfer of title must be evident.
- Some scenarios require the borrower to pay a 'buyer's premium', which is typically 5% of the sales price. This premium is added to the final bid amount and becomes part of the total sales price.
- The seller must be a government agency - FNMA, FHLMC, FHA or VA; and
- Properties sold at auction by the builder, developer, construction lender or other parties are ineligible; and
- Single-family detached residences only; and
- Co-ops are ineligible.

12.2 Refinance – General

12.2.1 Cash-Out Refinance

- The property must have been purchased (or acquired) by the borrower at least six (6) months prior to the disbursement of the new mortgage.
-
- All Occupancy Types:
- Cash-out transactions require a minimum of six (6) months seasoning.
-
- The loan to value will be based off of the appraised value if:
- The Property has been owned for at least 12 months, or
- The property has been owned for less than 12 months, but at least 6 months, and Angel Oak orders a CDA which must acceptably support the appraised value
- Cash-out transactions include but are not limited to:
  - Paying off of liens to include ALL non-seasoned liens
  - Disbursing cash out to the borrower or any other payee
  - Consumer or other payoffs

12.2.2 Construction-to-Perm

- The conversion of construction-to-permanent financing involves the granting of a long-term mortgage to a borrower to replace interim construction financing obtained by the borrower to fund the construction of a new residence.
- The borrower must hold title to the lot, which may have been previously acquired or purchased as part of the transaction.
- A construction-to-permanent transaction may be closed as a purchase, rate/term refinance or cash-out refinance. All construction work must be complete. See *New Construction* section for additional requirements.
- When a refinance transaction is used, the borrower must have held legal title to the lot before he/she applied for the construction financing and must be named as the borrower for the construction loan.
-
  - For lots owned ≥12 months from application date for the subject transaction, LTV is based on the current appraised value
  - For lots owned < 12 months from application date for subject transaction, LTV is based on the lesser of the current appraised value of the property or the total acquisition costs (sum of construction costs and purchase price of lot).

12.2.3 Continuity of Obligation

- An acceptable continuity of obligation exists when any of the following are present:
  - At least one borrower obligated on the new loan must be a borrower obligated on the existing loan being refinanced; and
  - At least one borrower has been on title and residing in the property for a minimum of six months and has either paid the mortgage for the last six months or can demonstrate a relationship (spouse, domestic partner) with the current obligor; and
  - At least one borrower has recently inherited or was legally awarded the property through a divorce or separation; and
  - The existing loan being refinanced and title have been held in the name of a natural person or an LLC, as long as the borrower was a member of the LLC prior to any transfer. Transfer of ownership from a corporation to individual does not meet continuity of obligation.
- The total amount of lender credit from premium pricing may not exceed the actual amount of closing costs and prepaids and any applicable incidental cash back allowed per program guidelines.

12.2.4 Delayed Financing

- Cash-out on properties purchased by the borrower with cash and owned less than six (6) months are acceptable. Refinances to recoup cash investment are underwritten and priced to the existing guidelines for purchase transactions.

12.2.5 Ineligible Transactions

- Blanket loans
- Bridge loans
- Borrowers less than eighteen (18) years old

12.2.6 Inherited Properties

- Inherited properties are allowed as both rate/term and cash-out transactions. If the subject property was inherited less than twelve (12) months prior to application, the transaction is considered a cash-out refinance and is subject to the following:
  - Equity owners must be paid through settlement. Subject property has cleared probate and property is vested in the borrower's name; and
  - Current appraised value is used to determine loan-to-value; and
  - If the property was inherited less than twelve (12) months, the Borrower cannot receive any cash in hand.

Documentation Requirements
A written agreement signed by all parties stating the terms of the buy-out and property transfer.

12.2.7 Land Contract/Contract for Deed

- When the proceeds of a mortgage transaction are used to pay off the outstanding balance on a land contract that was executed and recorded more than twelve (12) months prior to the date of the loan application, the transaction is considered rate/term refinance.
- If the land contract was executed within twelve (12) months of the date of the loan application, the transaction is considered a purchase.
- The following requirements apply:
  - Primary residence only; and
  - If the contract was executed less than twelve (12) months ago, the lesser of the purchase price or the current appraised value must be used to determine LTV. The current appraised value may be used to determine LTV if the land contract was executed and recorded over twelve (12) months ago; and
  - Cash-out and non-arm's length transactions not eligible.

Documentation Requirements
A copy of the fully executed and recorded land contract and payoff(s)
Copies of canceled checks for twelve (12) months (or term of the lease if less) as evidence of timely payments
If the land contract was executed less than twelve (12) months ago, the borrower's previous housing payment history must also be verified to complete a completed (twelve) 12-month history
Liens on title to be paid in full and reflected on HUD-1 Settlement Statement at closing.

12.2.8 Lease with Purchase Option

- Lease with purchase option transactions are allowed for primary residences only.
- Borrowers may apply a portion of the rent paid to their down payment requirements. See Rent Credit within *Lease with Option to Purchase* for additional requirements.
-

Documentation Requirements
A copy of the fully executed rental/purchase agreement verifying monthly rent & specific terms of the lease; and
Copies of canceled checks for twelve (12) months (or term of the lease if less) as proof of rental payments

12.2.9 Property Listing History

- If the property was listed for sale within the past six (6) months, the lesser of the most recent list price or the current appraised value should be used to determine loan- to-value for both rate/term or cash-out transactions.
-
- To be eligible for an either a rate/term or a cash-out refinance, the subject property must be taken off the market on or before application date.
-

Documentation Requirements
Rate/Term Transactions
The borrower must confirm in writing:
The reason for the prior listing; and
Intent to occupy the subject property.

12.2.10 Rate/Term Refinance (Limited Cash-Out Refinance)

- Primary Residence and Second Home:
- The appraised value is used to determine loan-to-value.
- Investment Property:
- If the property was acquired less than one (1) year from the application date, the lessor of the appraised value or purchase price will be used to determine loan-to-value.
- **All Occupancy Types:**
- Closed end second mortgages may be paid off and not considered cash out if the date of the Note is greater than twelve (12) months.
- HELOC's and other open ended lines of credit may be paid off and not considered cash out if the note date is greater than twelve (12) months AND no more than $2,000 in draws were made in the past twelve (12) months.
- Disbursed cash-out to the Borrower up to the greater of 1% of the loan amount or $2,000.

12.2.11 Net Tangible Benefit

- All primary residence and second home refinance transactions must have a measurable benefit to the borrower.
- When determining the benefit on a refinance transaction, one or more of the following must exist to support the benefit to the borrower:
- Balloon payoff
- Title transfer
- Property retention
- Rate reduction
- P&I reduction
- Debt reduction
- Uncontrolled cash-out
- State-specific and/or federal benefit to borrower compliance requirements must be adhered to. Underwriter is to complete the Benefit to Borrower Worksheet to ensure compliance with the benefit to borrower policy. Files must contain documentation supporting the acceptable benefit.
-
- Additional restrictions apply if the new loan refinances an existing loan considered to be a special mortgage. A special mortgage is originated, subsidized, or guaranteed by or through a state, tribal, or local government, or nonprofit organization

that either bears a below-market interest rate at the time the loan was originated or has nonstandard payment terms beneficial to the borrower, such as payments that vary with income, are limited to a percentage of income, or where no payments are required under specified conditions.

- If the borrower will lose one or more of the benefits of the special mortgage, then both of the following apply:
- Originator must check that the loan complies with all applicable state and local laws as well as laws associated with the subject special loan program for compliance; and
- Originator must take special care to insure a net tangible benefit to the borrower.
- For both rate/term and cash-out refinance transactions, there must be continuity of obligation if an outstanding lien will be satisfied through the refinance.

12.2.12 Exclusionary Lists

A loan transaction is ineligible for financing if any material parties (companies or individuals) to the transaction are listed on HUD's Limited Denial of Participation (LDP) list, the Federal General Services Administration (GSA) Excluded Party List, or any other applicable exclusionary list.

13 Flip Policy

Flip transactions must comply with the HPML appraisal rules in Regulation-Z (Reg-Z). The full Reg-Z revisions can be found at *http://www.consumerfinance.gov/regulations/appraisals-for-higher-priced-mortgage-loans*. A second appraisal is required in the following circumstances:

- Greater than 10% increase in sales price if the seller acquired the property in the past 90-days
- Greater than 20% increase in sales price if the seller acquired the property in the past 91-180 days
- These requirements do not apply if the seller is FNMA, FHLMC, HUD or any other government entity.

Documentation Requirements
Evidence of required seasoning must be submitted in the Underwriting file.
When applicable; Two (2) appraisals are required (lower of the two values is used)

14 Exception Policy

Angel Oak Underwriters may make exceptions to published guidelines on a case-by-case basis. In most cases the underwriter should consider at least one of the following compensating factors when making their final decision.

- The borrower's residential pay history for 24-months is 0 x 30; or
- The primary wage earner has five (5) years on the current job; or
- Reserves are three (3) months greater than the published guidelines; or
- The LTV is 10% below the maximum allowed; or
- Payment shock is 125% or less; or
- The borrower has additional income that is not used to qualify due to documentation or duration issues (i.e.: co-borrower on new job for the past eight (8) months but not using to qualify).

A loan containing one or more of the listed compensating factors does not insure or guarantee an exception will be granted nor are all loans that are granted exceptions required to have one of the listed factors. Underwriters should always review all aspects of the loan and determine if an exception is warranted based on all factors of the loan and not one feature. Underwriters are allowed to make up to one exception per file. Multiple exceptions must be signed off on by the Underwriting Manager.

An Underwriter that makes an exception that does not include one or more of the listed compensating factors will require the Underwriting Managers approval.

Appendix A

This program is a companion to the Angel Oak Portfolio Program Guidelines

Where not specified, this Appendix will follow in accordance with the Angel Oak Portfolio Program Guidelines

15 Bank Statement Program

Angel Oak provides five (5) additional documentation options to determine a borrowers qualifying income. Under this program any of the following will be acceptable;

- 24 or 12 months business bank statements
- 24 or 12 months personal bank statements
- 1099 Statements

Trust accounts will not be permitted under any bank statement program option.

15.1 General Requirements

Under this program the borrower(s) whose income is being calculated using bank statements must be self-employed.

Self-employment income must account for 30% of the total qualifying income.

Wage earner income from a Co-Borrower may be used if not associated with the Borrowers business.

Refer to the applicable Program Matrices for credit score, ratio and LTV restrictions.

15.2 Assets

Funds from the Borrower's business checking and savings accounts may be used for down payment, closing costs and reserves.

The ending balance of the business funds used may be the lesser of:

- 100% of the ending balance; or
- The percent of business ownership.

Documentation Requirements
Borrower's most recent one (1) month bank statement can be used to verify funds.
Bank statements may not be more than 90-days old at the time of the Note date.

15.3 Credit Score

The Representative Credit Score will be the middle FICO score of the primary wage earner.

15.4 Business Bank Statements

To be Eligible under the business bank statement program borrowers must have at least 50% ownership in the business

15.4.1 Qualifying Income

- 24 or 12 months business bank statements will be required. A 24 month or 12 month average less an expense ratio will be used for qualifying purposes.

Documentation Requirements
24 or 12 months business bank statements
Business Questionnaire
Third Party accountant letter, Operating agreement (single member), or equivalent stating ownership percentage (example of equivalent documentation can include but not limited to: Partnership Agreement, Articles of Incorporation, EIN {must reflect sole proprietor})

-
- Operating Agreement/Bylaws, Partnership Agreement, Articles of Incorporation used to verify percentage of business ownership may exceed 120 days.
-
-

-
-

15.5 Personal Bank Statements

15.5.1 Personal Bank Statements, Plus Business Bank Statements

- Borrowers operating a business using a separate business bank account may qualify using a personal bank statements.

15.5.1.1 Qualifying income

Qualifying income is defined as 100% of the deposits from the personal bank statements averaged over a twelve (12) or twenty-four (24) month period.

- All parties on the bank statements must be on the loan.
- Transfers from the business to personal account are allowed.

Trust accounts, PayPal or VENMO accounts are not allowed

Documentation Requirements
Two (2) months business bank statements. One (1) of the bank statements must be from the most recent 90-days.
Most recent 24 or 12 months consecutive personal bank statements
IRS transcripts are not required under the personal bank statement program. In the event one or more co-borrower(s) are wage earners IRS transcript are still not required.

15.5.2 Business's Operating without a Business Bank Account

- Borrowers operating a business out of a personal bank account, or when two (2) months business bank statements are not furnished, the qualifying income may be determined by using a personal bank account with an applied *business expense ratio*.

15.5.2.1 Qualifying Income

Qualifying income is defined as 100% of the deposits from the personal account averaged over a twelve (12) or twenty-four (24) month period, less *business expense ratio*.

Documentation Requirements
Most recent 24 or 12 months consecutive personal bank statements
Business Questionnaire
IRS transcripts are not required under the personal bank statement program. In the event one or more co-borrower(s) are wage earners IRS transcript are still not required.

15.6 1099 Statements

15.6.1 Qualifying income

Qualifying income is defined as total 1099 plus year to date earnings, less business expense ratio.

Only One (1) 1099 may be utilized.

Must be a 1099 employee for the same company for two (2) full years.

Documentation Requirements
Most recent 2 or 1 years' worth of 1099 statements (Verified with a 4506-T)
Year to date earnings verified by Business or Personal Bank Statement or Year to date earnings statement
Business Questionnaire

15.7 Business Expense Ratio

All loans will have an expense ratio applied to the deposits used for calculating income.

15.7.1 Standard Expense Ratio

A standard business expense ratio of 50% may be applied without additional documentation.

15.7.1.1 70% Ratio

The following Businesses will require a 70% Expense Ratio

- New Home Builders
- Retail
  - Brick & Mortar
  - Ex. – Grocery, Gas Stations, Convenience Stores
- Restaurants & Bars
  - Brick & Mortar
  - Full Service dining & wait staff
- Automotive Dealerships
- Farming & Agriculture
- Medical Centers
  - With more than 20 employees
- Manufacturing
  - Production/ Assembly with plant

15.7.2 Minimum Expense Ratio

Amounts less than 50% would require a third party prepared;

- CPA/Tax Preparer Statement

The minimum or floor expense ratio used to calculate qualifying income is 15%..

Documentation Requirements
When the standard expense ratio is not being utilized, Third Party prepared CPA/Tax Preparer Business Expense Ratio Statements
Business Expense Statement that covers the same time period as the bank statements provided.

15.8 Changes in Income

Under the twenty-four (24) month Business and Personal Bank Statement program, income will be reviewed for declining income levels.

Total of deposits from year one (1) will be comparted to total of deposit from year two (2) to determine any changes.

15.8.1 Declining Income

If the total of deposits from year one (1) are less than year two (2) by 35% or more, borrowers will no longer be eligible for the twenty-four (24) month Business and/or Personal Bank Statement program and will need to be evaluated under the 12 Business and/or Personal Bank Statement program.
A decline in income of less than 35% is acceptable.

NOTE: This review will only apply to the twenty-four (24) month Business and Personal Bank Statement program.

15.9 1003 Initial Disclosed Income

Income disclosed on the initial signed application should be reviewed. If income calculated is significantly higher than income stated on the 1003, the underwriter should request an explanation from the borrower to determine acceptability of the income.

15.10 Business Debts

Business debt appearing on the borrower's individual credit report will be included in the debt to income calculations.

15.11 Program Restrictions

The following restrictions apply when using bank statement documentation:

- Up to two (2) accounts for two (2) separate qualified business may be used for qualifying purpose. Cannot be joint accounts if qualifying under the Personal Bank Statement Program
    - Note: No co-mingling between the accounts or limited to only 1 account/ 1 business.
- Borrower must qualify with Standard Trade Lines as per *Trade Line Requirements* section; and
- foreign nationals are not eligible; and
- Payroll deposits into accounts from other employment must be reflected as direct deposits and may not be included in the bank statement average. W-2 earnings must be documented as per the requirements in *Salaried/Wage-Earners* section; and
- A consistent pattern of withdrawals exceeding deposits on a monthly basis or evidence of a decline in earnings may result in disqualification; and
- NSF and overdraft activity must be reviewed for acceptability; and
- Primary source of income derived solely from the ownership of rental properties are not eligible under Bank Statement. Must be calculated per the requirements in *Rental Income* section; and
- Borrowers who receive rental income as a secondary income source may utilize bank statement documentation on a case-by-case basis; and
- Non-Profit organizations and/or members of the clergy are not eligible under the Bank Statement Program.

15.12 NSF and Overdraft Activity

NSF and overdraft activity must be reviewed for acceptability.

Documentation Type	NSF and Overdraft Activity
24 Months	Max 6 allowed in each 12 month segments
12 Months	Max 6 allowed

15.13 Occupancy

Eligible occupancy under the Bank Statement Program are as follows:

- Owner-Occupied
- Second Home
- Investment

15.14 Transaction Types

- Purchase
- Rate/Term Refinance
- Cash-Out Refinance

Appendix B

This program is a companion to the Angel Oak Portfolio Program Guidelines

Where not specified, this Appendix will follow in accordance with the Angel Oak Portfolio Program Guidance

16 Asset Qualifier Program

Platinum	Eligible
Portfolio Select	Not Eligible
Bank Statement	Not Eligible

16.1 Asset Seasoning

Assets used to qualify under this program must be sourced and seasoned for a minimum of six (6) months.

All assets must be personal; business assets are not permitted.

Funds or deposits from or within a Trust account, will not be considered an acceptable source to determine qualifying income.

Documentation Requirements
Most recent bank/account statements reflecting ending balance; and
Statement from the same accounts dated six (6) months ago

16.2 Asset Qualifications

In lieu of income, borrowers with significant net worth may qualify for a mortgage loan by documenting sufficient assets to cover the following:

- Loan amount; and
- Down payment; and
- Closing costs and prepaid items; and
- Five (5) years of monthly debt expenditures; and
- Six (6) months PITIA reserves

Minimum assets required is $500,000 in post-closing assets.

16.3 Credit Requirements

16.3.1 Credit Score

- Borrowers must have a 700 minimum credit score

16.3.2 Credit Events

- Borrowers with a bankruptcy (filed, dismissed and/or discharged), deed-in-lieu, short sale or foreclosure in the past five (5) years will be ineligible

16.4 Debt-To-Income

Debt-To-Income will not be calculated under this program

16.5 Gift Funds

Not allowed

16.6 IRS Transcripts

4506-T or 4506EZ are not required under this program

16.7 Ineligible Assets

- Business Funds
- Cash Value of Insurance
- Gift funds
- Gift of equity
- Sale of a personal asset
- Equity of existing home

Please refer to *Unacceptable Sources of Funds* for additional exclusions.

16.8 Maximum Loan-To-Value

Please refer to program specific matrix for details

16.9 Monthly Debt Expenditures

Borrowers will be required to document funds in an amount equal to sixty (60) months of their total monthly debts as reported on credit report, including but not limited to:

- Monthly property taxes and insurance on the subject property; and
- Other Real Estate Owned
  - Borrowers with additional properties owned must qualify using the full PITIA amounts. Rents received may not be used to reduce, omit or wash the borrower's payment.

NOTE: Paying down or off monthly debt for qualifying purposes will not be permitted.

If not stated, please refer to the Credit and Liabilities section for treatment of other debt.

16.10 Residual Income

In lieu of income, borrowers with significant net worth may qualify for a mortgage loan by using the following calculations:

- Total assets divided by 60-months; and
- Less all monthly debts (see monthly debt expenditures); and
- New PITIA payments.

Must result in a minimum residual income of $1,300.

16.11 Occupancy

Owner occupied, primary residence only

16.12 Qualifying Assets

16.12.1 Stocks, Bonds, Mutual Funds and other investment accounts

- 85% of account value

16.12.2 Retirement (Non-401K) Accounts

- Borrowers age 59 ½ and over – 80%
- Borrowers age under 59 ½ - 70%

16.12.3 Retirement 401K Accounts

- Up to 50% of the borrowers vested balance may be used. Funds used from a 401K account may only account for up to 50% of borrower's total assets.

16.12.4 Subordinate Financing

- Not allowed
-
-
-

16.13 Transaction Types

- Purchase; or
- Rate and Term Refinances; or
- Cash-Out Refinances; and
- *Delayed Financing* allowed when program requirements met.

Appendix C

This program is a companion to the Angel Oak Portfolio Program Guidelines

Where not specified, this Appendix will follow in accordance with the Angel Oak Portfolio Program Guidance

17 Asset Depletion Program

Platinum	Eligible
Portfolio Select	Not Eligible
Bank Statement	Not Eligible

17.1 Asset Depletion Eligibility

- Must have the lessor of $1MM or 150% of the loan amount (minimum of $450k) after down payment, closing costs and reserves; and
- Gift funds, business funds, face value of life insurance, Crypto and Annuities are not allowed; and
- Line of Credit, Equity Line, cash out on loan may NOT be accessed to achieve qualified Assets; and
- Funds may not be cross-collateralized to another loan of any type; and
- Assets held in trust may be used if there are no sections or statements within the trust which prohibit borrower's use of trust funds; and
- Pledged assets and/or secure loans are not eligible.
- 6 months seasoning on all assets

17.1.1 Credit Requirements

- PLEASE SEE PLATINUM MATRIX FOR DETAILS

17.1.2 Qualified Adjustments

- Checking, Savings, CD's Money Markets: 100%
- Stocks, bonds, mutual funds (Public Co. listed and traded – no privately held, over the counter, pink sheet or penny stock): 70%
- Retirement (Non-401K) Accounts:
  - Borrowers age 59 ½ and over – 70%
  - Borrowers age under 59 ½ - 70%
- Retirement 401K Accounts:

Documentation Requirements
Most recent account/bank statements
Statement from the same accounts dated six (6) months ago

17.1.3 Borrowers

17.1.3.1 Eligible Borrowers

- Borrower(s) with high net worth and significant liquid assets.
- Borrower(s) may be retired and/or working.

17.1.3.2 Ineligible Borrowers

- Non-occupying Co-Borrower

17.1.4 Occupancy

- Owner-Occupied

17.1.5 Reserves

- Six (6) months reserves are required

17.1.6 Transaction Types

- Purchase; or
- Rate and Term Refinances

17.1.7 Depletion of Asset Calculations

- Qualified assets divided by 84 months = Monthly Income
-

Documentation Requirements
Most recent bank/account statements reflecting ending balance; and
Statement from the same accounts dated six (6) months ago

Appendix D

This program is a companion to the Angel Oak Portfolio Program Guidelines

Where not specified, this Appendix will follow in accordance with the Angel Oak Portfolio Program Guidance

18 1-Year Tax Return Eligibility

Self-employed borrowers seeking to qualify for a mortgage loan using the most recent tax returns may be considered under this program.

18.1 Eligible Borrowers

The borrower must be self-employed greater than or equal to two (2) years.

Platinum	Eligible
Portfolio Select	Eligible
Bank Statement	Not Eligible

18.2 Ineligible Borrowers

Non-occupying Co-Borrowers are not eligible

18.3 Self-Employed Borrowers

Angel Oak considers any individual to be self-employed if they have a 25% or greater ownership interest in a business.

Self-employed borrowers should have a consecutive, level or increasing earnings trend that supports a two (2) year history of self-employment with the same business and at the same location.

Documentation Requirements
Most recent scheduled tax year – Filed Individual Federal Tax Returns (with all schedules attached), including W-2's and/or 1099's); and
Most recent scheduled tax year - Filed Federal Business Returns. (For Sub-S & Corp.), and
Unaudited YTD P&L Statement

18.3.1 Sole Proprietorship

A sole proprietorship is a business structure in which an individual and his or her company are considered a single entity for tax and liability purposes. Income and losses are reporting on the owner's individual federal tax return.

Documentation Requirements
Most recent scheduled tax year – Filed Individual Federal Tax Returns (with all schedules attached), including W-2's and/or 1099's); and
YTD P&L Statement if the loan application is dated > 90 days after the end of the business's tax year
Executed IRS Form 4506-T signed by all borrowers; and
Verification of the existence of the business required within ten (10) days of closing; and
A copy of the Underwriter's written analysis of income must be included in the loan file.

18.3.2 Partnership

A partnership is a business organization in which two or more individuals manage and operate the business. The partners share profits and losses and control of the business. Partnerships fall into two main categories: general and limited.

- **General Partnerships** - Each partner is personally liable for the debts of the whole business. Personal liability to the partnership creditors will continue even after the partnership is dissolved.
- **Limited Partnerships** - One or more partners in the business is liable only to the extent of the amount that partner has invested. Limited partners are generally not personally liable for the debts of the company. Normally, a limited partnership exists for investment and tax purposes.
- If the borrower is a limited partner with < 50% ownership, partnership tax returns are not required.
-

Documentation Requirements
Most recent scheduled tax year - Filed Individual Federal Tax Returns (all schedules attached); and
W-2's, if applicable; and
K-1's; and
Partnership Returns (with all schedules attached); and
Signed and executed IRS Form 4506-T signed by all borrowers
YTD P&L Statement if the loan application is dated > 90-days after the end of the business's tax year
Verification of the existence of the business required within ten (10) days of closing
A copy of the Underwriter's written analysis of income must be included in the loan file.

18.3.3 Corporations

A corporation is a legal entity that is separate and distinct from its owners. If a borrower has more than 25% ownership in a corporation, they are considered self-employed. A borrower that is self- employed as a corporate officer will receive a pay stub and W-2, and will report income on his or her personal tax returns. Corporate income or losses are reported on the corporate tax returns (IRS Form 1120).

NOTE: Notes, mortgages, and bonds payable in less than one-year will be ignored if the amount is similar over the past 2-years. If not:

- Proof of sufficient business assets to pay; or
- Reduce from income; or
- Proof the debt will roll over

Documentation Requirements
Most recent scheduled tax year – Filed Individual Federal Tax Returns (all schedules attached); and
W-2's; and
Most recent scheduled tax year – Filed Corporate Federal Tax Returns (IRS Form 1120) complete with all schedules; and
Two (2) current pay statements covering a 30-day period

18.3.4 S Corporations (Subchapter S Corporations)

S Corporation (S-Corp) is a type of corporation which enables the company to have the benefits of a corporation but be taxed as if it were a partnership. S-Corps are generally small corporations. The profit of the corporation is given to each owner according to his or her share of ownership. The adjusted profit is then divided by the borrower's share of ownership and combined with W-2 income used for qualifying. Income is reported with both a W-2 and K-1 (reporting on the Schedule E) or only with a K-1.

NOTE: Notes, mortgages, and bonds payable in less than one-year will be ignored if the amount is similar over the past two (2) years. If not:

- Proof of sufficient business assets to pay; or
- Reduce from income; or
- Proof the debt will roll over

Documentation Requirements
Most recent scheduled tax year - Filed Individual Federal Tax Returns (all schedules attached); and
W-2s, if applicable; and
Most recent scheduled tax year - Filed Corporate Federal Tax Returns (IRS Form 1120-S) complete with all schedules; and
K-1s; and

18.3.5 Non-Borrowing Spouse Business Loss

Losses associated with a non-borrowing spouses' business will not be considered as a deduction to the Borrowing spouses' income provided it can be documented the borrower has no ownership interest in the business.
If the property is located in a community property state loss must be considered.

18.3.6 Existence of Business

Verification of the existence of the business required within ten (10) calendar days prior to the note date by both:

- A third party, such as a CPA, regulatory agency, or the applicable licensing bureau, if possible; OR
- A phone listing and address verified for the borrower's business using a telephone book, the internet, or directory assistance.

The source of the information obtained and the name and title of the AOMS employee who obtained the information must be documented.

18.4 Occupancy

- Owner-Occupied; or
- Second Home

NOTE: Non-Owner Occupied Properties are NOT permitted.

18.5 Transaction Types

- Purchase; or
- Rate and Term Refinances; or
- Cash-Out Refinances.

Appendix F

This program is a companion to the Angel Oak Portfolio Program Guidelines

Where not specified, this Appendix will follow in accordance with the Angel Oak Portfolio Program Guidelines

19 Closed End Seconds & HELOCs

19.1 Product Type

19.1.1 Closed End Seconds

- 30-year fixed
- 20-year fixed
- 15-year fixed
- 10-year fixed

Interest Only options are NOT available

19.1.2 Home Equity Line of Credit

- Interest Only during the draw period
- 25-year (10 yr. draw, 15-year repay) ***Not available on Business Bank Statement***
- 20-year (5-year draw, 15-year repay)
- 15-year (3-year draw, 12-year repay)

19.2 Appraisal Requirements

One of the following appraisal products is required:

Loan Amount ≤ $250,000 OR LTV ≤80%

- Clear Capital AVM with a confidence rate > 87% and Exterior Property Inspection required for HELOCs
- BPO
- Drive-By Appraisal
- Full Appraisal

Loan Amount > $250,000 OR LTV > 80%

- New Appraisal
- **Note:** Transferred Appraisals are not allowed

19.3 Eligible Borrower(s)

- U.S. Citizens
- Permanent Resident Aliens with a 10-yr. Green Card

19.4 Documentation Age

- Credit, Income and Assets = 60 days
- Collateral Documents and Title = 90 days

19.5 Credit

19.5.1 Credit Score

- One Borrower = Use middle score
- Multiple Borrowers = Use the lowest middle score of all borrowers

19.5.2 Credit History

- Mortgage History = 0x30x24
- No Collections, Charge Offs or Judgements in the last 24 months

19.5.3 Seasoning Requirements

- Foreclosure, Deed-in-Lieu, Forbearance, Modifications, or 120 days late NOT ALLOWED
- Bankruptcy: 60 months from discharge date. Mortgage could not have been included in BK

19.6 Income

19.6.1 Income Types – Eligible

- Full Documentation
- Self-Employed borrowers must have filed the most recent 2-years tax returns which must be verified with a 4506-T
- W2's with YTD pay statements
- Business Bank Statements
  - Qualifying FICO must be ≥720

19.6.2 Income Types – Ineligible

- Personal Bank Statements
- P&L Income
- 1-Yr. Tax Return

19.6.3 Qualifying Income

Business Bank Statement Program

- 12 or 24 month Bank Statements will be required
- A 12 or 24 month average less expense ratio will be used for qualifying

Full Documentation – Self Employed

- Most recent 2 years field personal and business tax returns (if applicable)
- IRS Record of account transcripts verifying returns and reflecting zero liability
- Declining Income of 25% or greater will NOT be eligible

19.7 Occupancy

- Primary Residence
- Second Home
- Investment Property

Borrower must own subject property for a minimum of 12 months.

19.7.1 Closed-End Second

- First Lien on subject property is required
- Terms of first mortgage must be documented
- Fully amortizing payment must be used for DTI
- If the 1st mortgage has a balloon note, the second mortgage cannot exceed terms of note

19.8 Property

19.8.1 Property Types – Eligible

- Single Family Detached
- Townhome
- 2-Units
- Warrantable Condominiums

19.8.2 Property Types – Ineligible

- 3-4 Units
- Non-Warrantable Condominiums

19.9 Reserves

- Minimum 6 months of full PITIA for 1st and 2nd lien
- CLTV/HCLTV ≤75%: Cash-out may be used for reserves
- Business assets may not be used

19.10 Residual Income

- DTI ≤ 45%: Minimum $2,500 USD
- DTI > 45%: Minimum $3,500 USD

19.11 Eligible Transaction Types

- Rate-Term Refinance
- Cash-Out Refinance

19.12 Vesting

- Vesting is not permitted in the name of an LLC, Corporation or Partnership
- Irrevocable Trust are not permitted

19.13 Geographic Restrictions

- TN – Owner Occupied and Second Homes are <u>NOT</u> allowed
- TX – Only Owner-Occupied properties are permitted