FEBRUARY 9, 2024

# INVESTOR CASH FLOW

## UNDERWRITING GUIDELINES

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# 1 General Requirements

## 1.1 Disclosures
All borrowers must sign the *Certification of Investment Purpose disclosure* at the time of receipt of the initial disclosures.

## 1.2 Documentation Age
- Credit Report: 90-days
- Income: 90-days
- Assets: 90-days
- Appraisal: 120 days (Recertification of value after 120-days up to 180-days)
- Title Commitment: Ninety (90) days

## 1.3 Escrows
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

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*

## 1.4 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 any supporting documentation.

## 1.5 Financed Properties
Angel Oak (AO) will finance up to five (5) investment properties or $3,000,000 in aggregate with AO. Additional requirements are applicable.
There is no limit on the number of financed properties a borrower can own.

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## 1.6 Loan Purposes

### 1.6.1 Eligible Loan Purposes

- Purchase
- Rate/Term Refinance
  - The loan to value will be based off of the appraised value after 6 months of ownership.
- Cash-Out Refinance
  - 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
- 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 to the existing guidelines for purchase transactions.

### 1.6.2 Ineligible Loan Purposes

- Construction to Permanent financing
- Consolidation, Extension and Modification Agreement (CEMA), purchase and refinance

## 1.7 Investment Purpose

Borrower is financing the properties solely for investment purposes, including, but not limited to, for (i) retaining the properties as a stabilized rental and (ii) monetizing the investment for capital gains purposes. Borrower is required to sign a certification at application that the properties are not owner occupied and are owned solely for investment purposes.

## 1.8 Loan Amounts

- Minimum Loan Amount: $100,000; LTV >80% Min $150,000
- Maximum Loan Amount: $3,000,000

*Refer to Investor Cash Flow Matrix for Credit Score, LTV, and Property type restrictions*

## 1.9 Occupancy

- Eligible Occupancy Types
  - 1-4 unit Non-owner occupied properties

- Ineligible Occupancy Types
  - Primary Residence
  - Second Home

## 1.10 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 Interest Only Payment

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## 1.11 Prepayment Penalty

Three (3) years – Six (6) months interest on the amount prepaid that exceeds 20% of the original principal balance (unless otherwise restricted by State law)

- Pre-pay Buyout: Please see matrix for additional information.

A prepayment penalty is required (unless otherwise restricted by state law) with a three (3) year duration and a payoff.

## 1.12 Underwriting

All loans must be manually underwritten. Refer to FNMA Seller Guide if not specifically addressed in the current guidelines.

## 1.13 Verification of Mortgage

- Required to verify primary residence.
- If Subject property is a refinance verification is verified with pay history
- Any mortgages shown on credit report must meet guidelines requirements.
- Private mortgages or mortgages not shown on credit report will not be reviewed.
- Foreclosures found on fraud guard must meet product guidelines.

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# 2 Appraisal and Property Requirements

## 2.1 Appraisal Requirements

One full appraisal is required with interior and exterior property inspection on the following appraisal forms is required:

- **1-Unit Properties**
  - Form 1004 Uniform Residential Appraisal Report (or Form 1073 for attached Condos); and
  - Form 1007 Single-Family Comparable Rent Schedule
- **2-4 Unit Properties**
  - Form 1025 Small Residential Income Property Appraisal Report

## 2.2 Appraisal Review Process

The Appraisal Review Process requires a secondary appraisal product to support the appraisal value for the transaction. Acceptable review products include 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 greater than $500,000
- Flip transactions
- Approved loan amount exceptions (second full appraisal required)
- LTV's less than 50%, at the underwriter's discretion, may not require a secondary appraisal product.

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

## 2.3 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

## 2.4 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.

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

- 100% of the insurable value of improvements, as established by the property insurer; or

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- 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.

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 declaration page is required.

Evidence of Insurance must provide the following information:

- Names of borrowers reflected the same as the names on the note
- Property address agrees with the note/security instrument
- 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
- Signed and dated by the agent

## 2.5 Property: Recent Listings

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.

## 2.6 Property Types

### 2.6.1 Eligible Property Types

- 1-4 Unit investor properties
- Vacant Properties
- Condo-hotel units (condotels)
- Planned Unit Developments (PUDs), Fannie Mae warrantable
- Properties with less than or equal to two (2) acres
- Leaseholds (in areas where leaseholds are common)
- Rural Properties: Allowed if property is in an area where rental properties are prevalent and comparable sales/rental comparable sales can be provided within a reasonable distance. No more than 10 acres.
- Condominiums:
  - HOA Delinquency (maximum): 15%
  - Annual Budget Dollar Delinquency (maximum): 10%
  - Investor concentration (maximum): 100%
  - 90% sold and closed

- All condominium transactions must have a completed Homeowners' Association (HOA) Certification and a valid Angel Oak or Underwriter project approval.. See Condominium Project Review Standards Section for acceptable methods of project approvals.
- A completed HOA Certification is required on all condo transactions. The HOA certification may not be greater than ninety (90) days old at the time of closing.
- All condominium projects must meet the following requirements:
  - The sustainability, marketability and financial stability of the project must be supported.
  - 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.
  - No more than 30% of the total square footage of the project may be used for commercial purposes.
  - No single entity, the 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 unit. Guideline does not apply for condominiums with <10 units.
  - 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 Loan Purchaser.
  - 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 Loan Purchaser within one project of 20% or twenty (20) loans, whichever is less.
  - HOA Delinquency (maximum): 15%
  - Annual Budget Dollar Delinquency (maximum): 10%
- Project with <4 units allowable
  - Condominium docs to be recorded
  - At least two (2) comparable sales are similar like condominiums from the immediate area

### 2.6.2 Ineligible Property Types

- Manufactured or mobile homes
- Cooperatives
- PUDs that do not meet Fannie Mae eligibility criteria
- Timeshares
- Unique Properties
- Properties with values significantly in excess of the predominant value of the subject's market area may be ineligible

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- Working farms and ranches
- Unimproved land and property currently in litigation
- Commercial Enterprise (e.g. bed and breakfast, boarding house, hotel)
- Zoning violations including residential properties zoned commercial
- Properties with less than 1000 square feet of living area
- Mixed use properties
- Properties with more than two (2) acres
- Properties held in a business name (except LLCs).
- Properties encumbered by purchase option (i.e. Rent to Buy or Contract for Deed)
- Geodesic domes
- Modular homes
- Log homes

## 2.7 Quality and Condition Ratings

The appraiser must assign the standardized Quality and Condition ratings when identifying the quality and condition of the subject property and comparable sales. AO will only permit transactions on properties with the following ratings:

- Quality – Q1 to Q5: Properties rated as Q6 are not permitted.
- Condition – C1 to C4: Properties rated as C5 or C6 are not permitted.

## 2.8 State Restrictions

State restrictions are based upon Angel Oak's licensed State footprint.

## 2.9 Declining Markets

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

# 3 Assets

Unless specifically stated otherwise, assets must be documented in accordance with Fannie Mae guidelines. Asset types which are not specifically mentioned below are not permitted.

Funds required for closing and reserves must be sourced and seasoned for the past sixty (60) days.

Assets that are eligible to be used for down payment, cash to close and reserves are listed below along with the corresponding value of those funds. All assets used for down payment, cash to close and reserves must be verified with acceptable documentation.

All unusual large deposits must be explained and the source must be documented.

The borrower's receipt of funds realized from the sale or liquidation of non-liquid assets when used for any part of the down-payment or required cash to close must be verified.

## 3.1 Asset Type

### 3.1.1 401(K) Plans

- 50% of the vested amount of the 401k account may be used after the reduction of any outstanding loans.
- Funds used from a 401k account may only account for up to 50% of borrower's total assets.
- Evidence of liquidation and funds received by borrower when using for cash required for closing.

| **Documentation Requirements** |
|---|
| Terms and conditions under which funds may be withdrawn or borrowed. |

### 3.1.2 Non 401(K) and Retirement

- 65% of the vested amount of the annuity may be used.
- 80% of the account value may be used for borrowers aged over 59 ½
- 70% of the account value may be used for borrowers aged under 59 ½
- Evidence of liquidation and funds received by borrower when using for cash required for closing.

### 3.1.3 Business Funds

Business funds may be used for down payment, closing costs and reserves.

- Borrower must have access to funds.
- Borrower must be the sole proprietor or 100% owner of the business (or all borrowers combined own 100%) CPA Letter needed to document percentage of ownership

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

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

### 3.1.4 Cash Value of Life Insurance

- 100% of the cash value of the life insurance policy may be used.

### 3.1.5 Checking, Savings, Money Market Accounts

- 100% of the value of the accounts may be used.
- Evidence of liquidation and funds received by borrower when using for cash required for closing.

### 3.1.6 Gift Funds

- Purchase Transactions Only
- Gift Donor must be an immediate family member
- Funds cannot be used towards reserves
- Minimum Borrower Contribution of 10% required

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### 3.1.7 Publicly Traded Stocks, Bonds, and Mutual Funds

- 85% of value may be used

### 3.1.8 Non-Vested or Restricted Stock Accounts

- Non-vested or restricted stock accounts are not eligible for use as down payment or reserves.

### 3.1.9 Sale of Real Estate Owned

- 100% of the net proceeds from the sale of a residence may be used.

### 3.1.10 Trust Assets

- Borrower and/or Co-borrower must have full access.

| **Documentation Requirements** |
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| A copy of the complete trust or trustee letter is required. |

### 3.1.11 Reserves

A minimum of six (6) month's reserves are required for the subject property**.** The reserve amount includes principal, interest, real estate taxes, property insurance and HOA dues, if applicable.

Net proceeds from a cash-out transaction may be used to meet reserve requirements.

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# 4 Borrowers

## 4.1 Borrower Types

### 4.1.1 Eligible Borrowers

- U.S. Citizens
- Permanent Resident Aliens
- Inter-Vivos Revocable Trusts
- All borrowers must have a valid Social Security Number
- Foreign Nationals (See Foreign National section for details)
- Non-Permanent Resident Aliens (including Foreign Nationals)
- Limited partnerships, general partners, LLC's and corporations (Title may be held in the LLC however the loan application must be made in the individual borrower(s) name(s). Refer to Title/Ownership Interest section of this Guide for additional information. LLC must be in the business of managing rental properties only.)
- First time homebuyers are permitted however must have history of rental property ownership

### 4.1.2 Ineligible Borrowers

- Irrevocable trusts
- Land trusts
- Borrowers party to a non-arm's length transaction
- Borrowers with only an individual taxpayer identification number

### 4.1.3 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 green card
- An expired Green card with a completed I-797 application for renewal of green card

## 4.2 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.

## 4.3 Fraud

An electronic fraud detection/QC report is required for each transaction. The report must cover standard areas of quality control including borrower validation, Social Security verification, property information and MERS.

## 4.4 Non-Arm's Length Transactions

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

- Non-Arm's length transactions are ineligible.

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# 5 Credit

## 5.1 Adverse Credit

- All public records and tax liens must be paid regardless of age.
- No bankruptcies or foreclosures, short sales, deed-in-lieu or modification allowed within the past four (4) years. Three (3) years if LTV ≤75%

## 5.2 General Information

- The representative credit score for qualification purposes is the lower middle score of all Borrowers.
- The Borrower must have an established credit history for a minimum of five (5) years.
- Authorized user accounts and non-traditional credit are not considered as acceptable trade lines.
- A 24-month residential housing payment history required for each borrower.
    - Must reflect 1x30 for past 12-months with up to zero (0) mortgage lates in months 13-24; or
    - Must reflect 0x30 for past 12-months with up to two (2) mortgage lates in months 13-24

## 5.3 Landlord Experience

A Borrower who, at closing, will own more than four (4) investment properties must demonstrate sufficient landlord experience.

Landlord Experience is defined as having experience owning and managing at least one (1) rental property for at least twenty-four (24) months within the past three (3) years.

## 5.4 Trade Lines

- Three (3) trade lines reporting for 12+ months
- 2 trade lines reporting for 24+ months
- Previous mortgage history may be documented with twelve (12) months cancelled rent checks.
- At least one (1) trade line must be a primary residential mortgage reporting for a minimum of twelve (12) months

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# 6 Income

## 6.1 Disclosure of Employment and Income

The borrower is not required to disclose employment information on the application (Form 1003). Income derived from regular employment, retirement or other investments should not be disclosed. The application should otherwise be fully completed including the Schedule of Real Estate Owned listing all properties owned.

## 6.2 Income Documentation

### 6.2.1 Qualifying Rental Income for Subject Property

- Purchase Transactions:

  - Market rents from the appraisal will be used to calculate the Debt Service Coverage Ratio (DSCR).
  - Tax returns are not required.

- Refinance Transactions:

  - Market rents from the appraisal will be used to calculate the DSCR; or
    - Rents from the property leases may be used, with proof of three (3) months' rent received.
  - Leases are required to be for a term of not less than twelve (12) months, though such leases may convert to month-to-month tenancies upon expiration.
  - Tax returns are not required.

*If borrower has chosen the Interest-Only option DSCR will be calculated using only the Interest-Only payment*

***Please note: If current actual rent is less than market rent, the actual rent must be used to qualify.***

### 6.2.2 Debt Service Coverage Ratio

Debt Service Coverage Ratio calculations:

- Leases or Market Rents / (Monthly PITI + HOA Payment)

The monthly payment includes principal, interest, taxes, insurance and homeowners association dues (as applicable).

*Refer to program matrix for minimum DSCR requirements*

### 6.2.3 Short-term Rental Income:

Purchase Transactions Only: May use AirDNA rental income reporting. See matrix for details

Purchase/Rate & Term Transactions: Monthly rental income will be derived by the appraiser utilizing seasonal or short-term rental information

Cash-Out Transactions: Monthly rental income will be derived from a 12-month statement from VRBO/Airbnb or other national rental company plus two-month bank statements to show receipt of the income.

# 7 Title / Ownership Interest

## 7.1 Fee Simple with Title Vesting as

- Individual
- 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 has the power to first mortgage the security property for the purpose of securing a loan. |
| 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.

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# 8 Financing & Sales Concessions

Interested party contributions may not exceed 6% of the sales price. Amounts contributed may only be used for closing costs or for prepaid items.

For any financing and sales concessions beyond the 6% limit, both the appraised value and the sales price must be reduced by the concession amount for purposes of calculating the LTV.

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# Appendix A

This program is a companion to the Angel Oak Investor Cash Flow Guidelines
Where not specified, this Appendix will follow in accordance with the Angel Oak Investor Cash Flow Guidelines

# 9 Foreign National

A Foreign National is a citizen of a country other than the United States, who has not become a naturalized U.S. Citizen.

## 9.1 Assets

Foreign National borrowers must have twelve (12) months PITIA reserves.
All funds for down payment and closing costs must be sourced and seasoned for 60-days and must be in a US account for 30 days. Reserves may be held in a foreign account. Net proceeds can be used for reserves

## 9.2 Gift Funds

Not eligible

## 9.3 Exclusionary List/OFAC/Diplomatic Immunity

All parties involved on each transaction must be screened through any exclusionary list used by the originator. The originator should apply its exclusionary list policy to any loans originated under these guidelines.
Parties to the transaction must also be cleared through OFAC's SND List (borrowers, sellers, employers, banks, etc.). A search of the Specially Designated Nationals and Blocked Persons List may be completed via the U.S. Department of the Treasury website: *https://sanctionssearch.ofac.treas.gov/*
Borrowers from OFAC sanctioned countries are ineligible. Access the link below for a list of sanctioned countries:
*https://www.treasury.gov/resource-center/sanctions/SDN-List/Pages/default.aspx*
Individuals with diplomatic immunity are not eligible due to the inability to compel payment or seek judgment. Verification the borrower does not have diplomatic immunity can be determined by reviewing the visa and/or passport.

## 9.4 Maximum Loan Exposure to One Borrower

The maximum loan exposure to one Foreign National borrower is limited to two (2) Angel Oak loans.

## 9.5 Maximum Number of Loans to One Borrower

Foreign National borrowers are restricted to two (2) loans per borrower with Angel Oak. Two months of additional reserves for each financed property is required. The financed property limit is cumulative for all borrowers.

## 9.6 Property Types

All Foreign National loans are considered investment properties.

## 9.7 Verification of Residency Status

The following visa types are allowed as foreign nationals: B-1, B-2, H-2, H-3, I, J-1, J-2, O-2, P-1, and P-2. Visas must be valid through the note date. A two (2) year housing history is required on the URLA. No verification is required
Borrowers unable to provide evidence of lawful residency status in the U.S. are not eligible for financing.
If a non-U.S citizen is borrowing with a U.S. citizen, it does not eliminate visa or other foreign national documentation requirements. Co-borrowers in possession of spouse or family member visas may be considered on a case-by-case basis.
Borrowers who are residents of countries which participate in the State Department's Visa Waiver Program (VWP) will not be required to provide a valid visa. Participating countries can be verified through the U.S. Department of State website at https://travel.state.gov/content/travel/en/us-visas/tourism-visit/visa-waiver-program.html.

| Documentation Requirements |
|---|
| Copies of the borrower's passport and unexpired visa |
| Acceptable alternative documentation to verify visa classification is an I-797 form (Notice of Action) with valid extension dates and an I-94 form (Arrival/Departure Record). When applicable, a valid employment authorization document (EAD) is required for U.S. employment if the visa is not sponsored by the borrower's current employer. |

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