

OAKTREE FUNDING

OAKTREE

Non-Agency Loan Eligibility Guidelines

FUNDING CORP. **Important:**

This Document is Used for all Non-Agency, Investor, and Titanium Advantage Programs

Revised 12/16/22

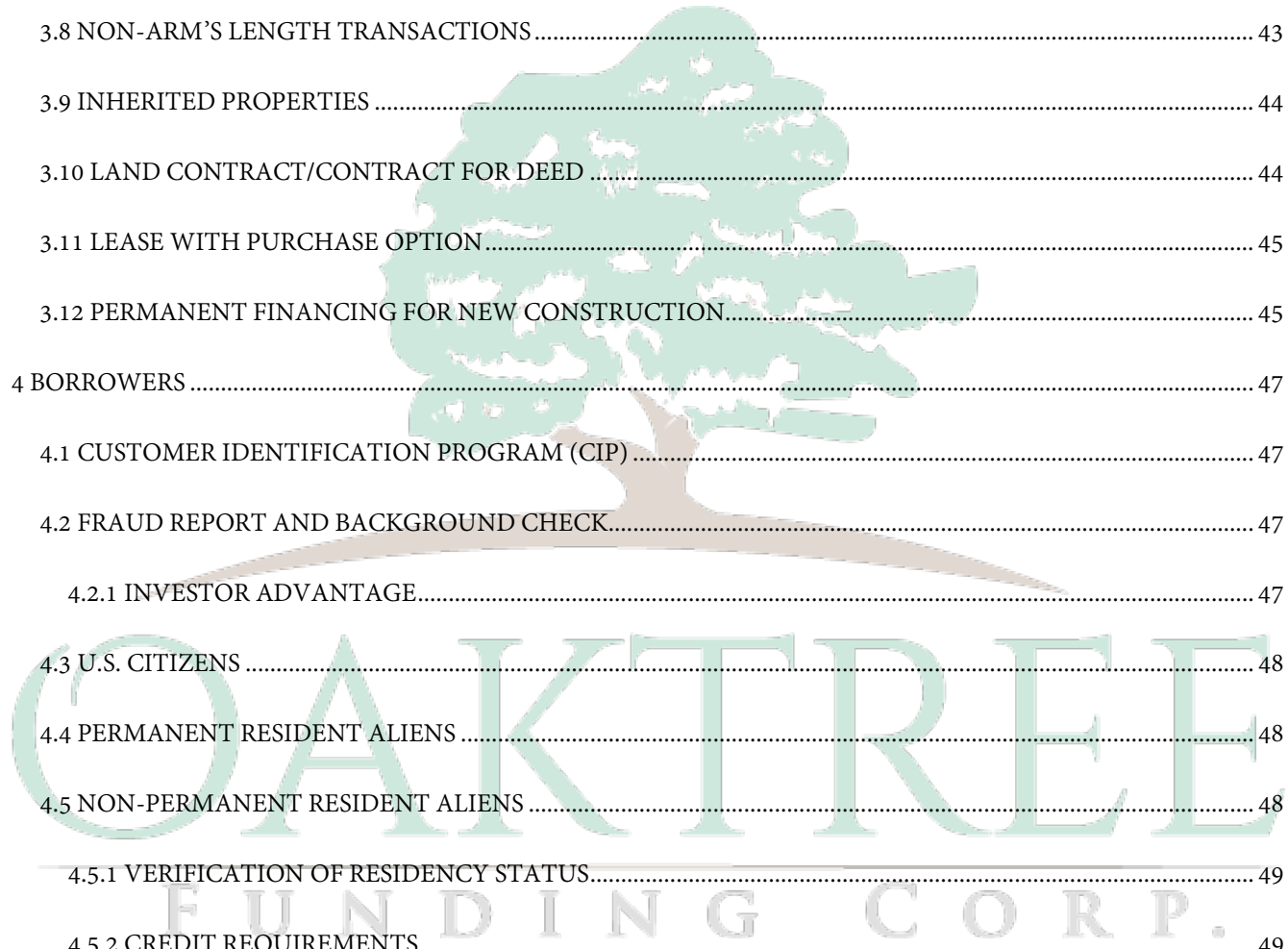
Version 9.6

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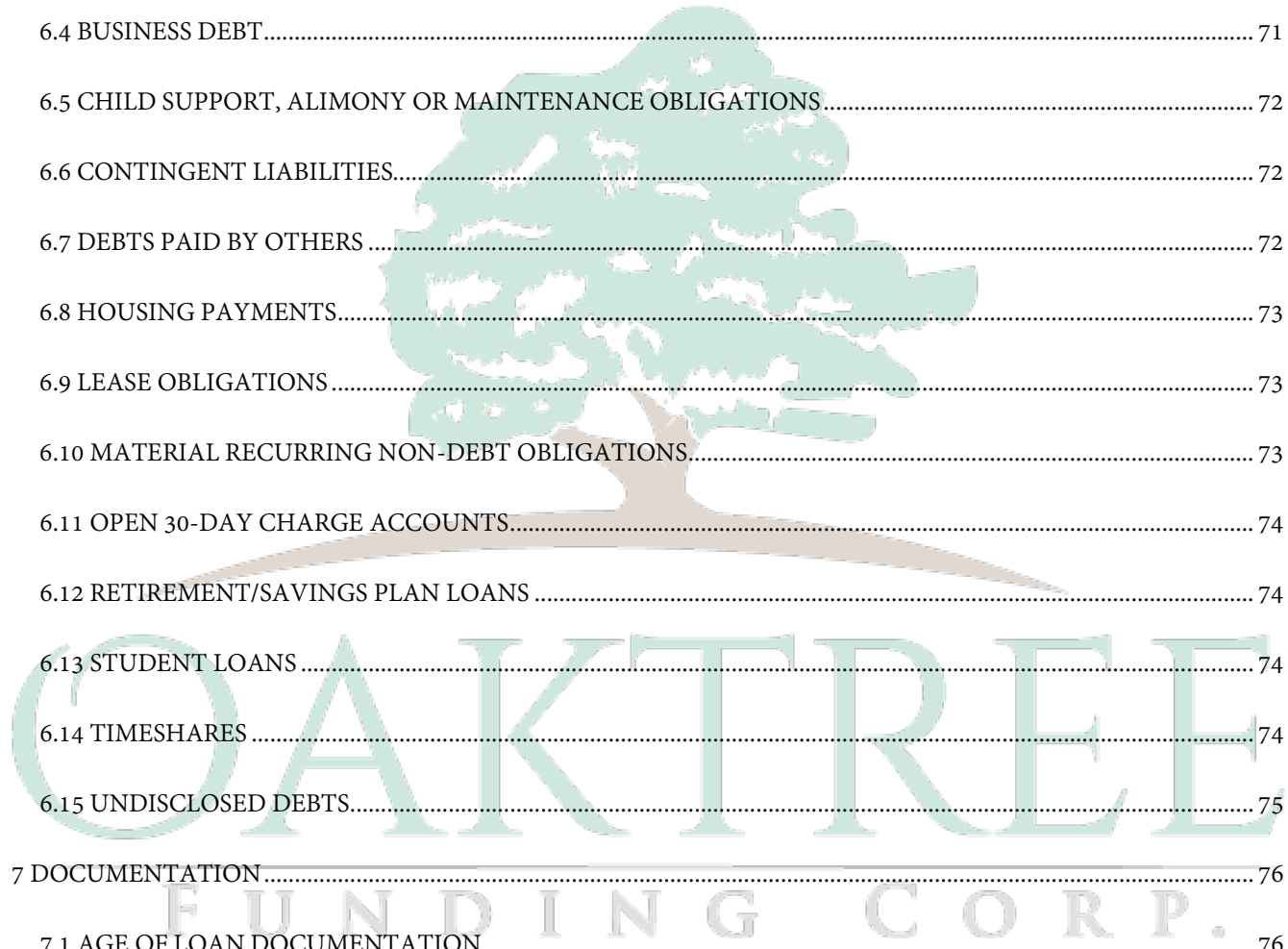
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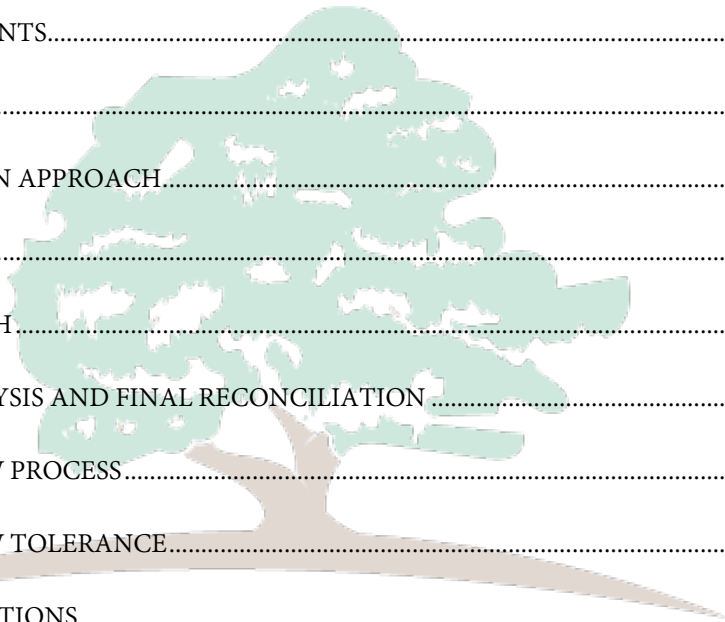
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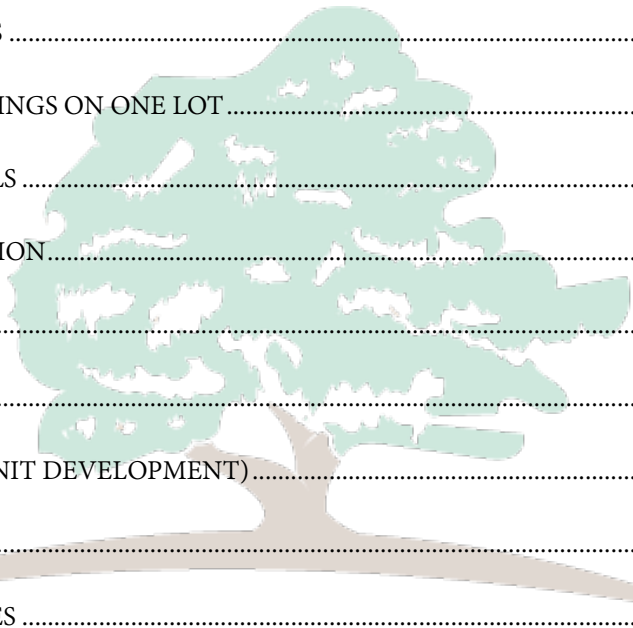
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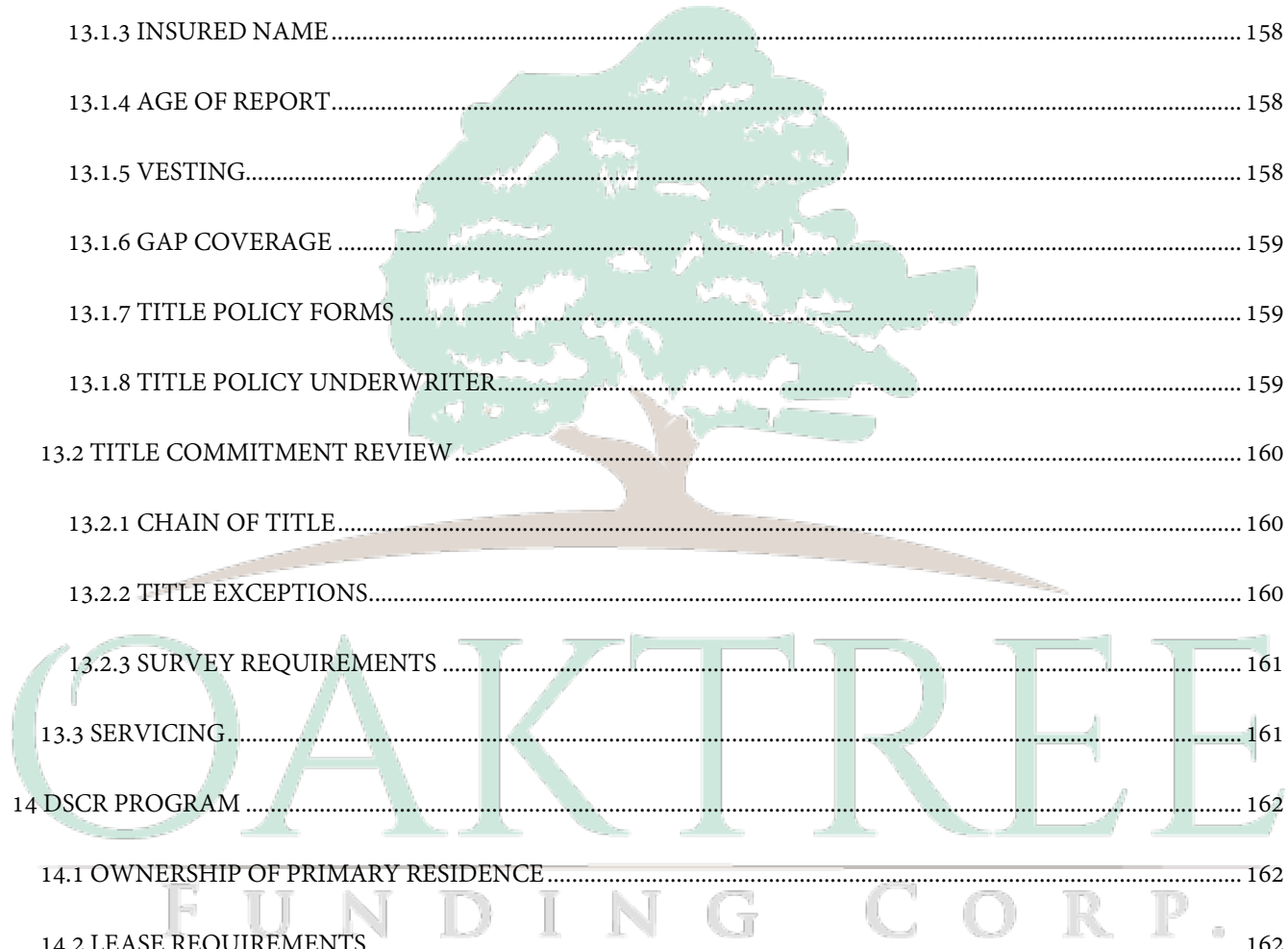
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# 1 LENDING POLICY

These guidelines serve to provide direction and consistency in loan, borrower, and property eligibility.

## 1.1 LOAN APPROVAL & ELIGIBILITY PHILOSOPHY

Oaktree Funding's underwriters will evaluate many aspects of the loan but primarily relies on evaluation of the borrower's ability to repay the loan to predict loan performance. Additional characteristics of the loan are also examined including credit history, asset position and the property being used for collateral.

Oaktree Funding's Guidelines establish the criteria under which a loan will be eligible for purchase or funding by Oaktree Funding Corp. Oaktree does not require originators or clients to make any loan simply because it is eligible for funding by Oaktree, nor does Oaktree prohibit originators or clients from originating a loan that is ineligible with Oaktree. Clients should rely on their own underwriting guidelines to determine whether to extend credit to any applicant.

Oaktree Funding has a no-tolerance policy as it relates to fraud. All clients should follow their own established fraud and identity procedures on every loan to prevent and detect fraud (including, but not limited to, Social Security number verification, verbal verifications of employment, processing of 4506-T, etc.) Loans containing fraudulent documentation or information will immediately be declined and forwarded for further review. If there is any determination of client involvement, the client will be made inactive, and the appropriate agencies notified. Oaktree Funding will fully also pursue borrower fraud of the law.

## 1.2 FAIR LENDING STATEMENT

Oaktree Funding operates in accordance with the provisions of the Fair Housing Act and Equal Credit Opportunity Act. The Fair Housing Act makes it unlawful to discriminate in housing-related activities against any person because of race, color, religion, national origin, sex, handicap, or familial status. The Equal Credit Opportunity Act prohibits discrimination with respect to any aspect of a credit transaction based on sex, race, color, religion, national origin, marital status, age

(provided the borrower has the capacity to enter a binding contract), receipt of public assistance, or because the borrower has in good faith exercised any right under the Consumer Credit Protection Act. Oaktree Funding fully supports the letter and spirit of both laws and will not condone discrimination in any mortgage transaction.

### **1.3 RESPONSIBLE LENDING STATEMENT**

The primary focus of this lending program is the borrower's ability to repay the mortgage obligation. Loans acquired or made by Oaktree Funding should be affordable to the borrower in his or her pursuit of homeownership.

Under the general Ability-to-Repay (ATR) standard, Oaktree will make a reasonable, good-faith determination that the consumer has a reasonable ability to repay the loan. Oaktree will verify information using third-party records that provide reasonably reliable evidence of income or assets.

If a loan is subject to the ATR rules under the Federal Truth in Lending Act ("TILA"), lenders must consider eight underwriting factors to be compliant:

1. Current or reasonably expected income or assets (other than the value of the property that secures the loan) that the consumer will rely on to repay the loan.
2. Current employment status (if you rely on employment income when assessing the consumer's ability to repay)
3. Monthly mortgage payment for this loan. You calculate this using the introductory or fully indexed rate, whichever is higher, and monthly, fully amortizing payments that are substantially equal.
4. Monthly payment on any simultaneous loans secured by the same property.
5. Monthly payments for property taxes and insurance that you require the consumer to buy, and certain other costs related to the property such as homeowner's association fees or ground rent.
6. Debts, alimony, and child support obligations
7. Monthly debt-to-income ratio or residual income, that you calculated using the total of all the mortgage and non-mortgage obligations listed above, as a ratio of gross monthly income
8. Credit history

Oaktree will not fund nor purchase a loan subject to the ATR requirement under TILA unless it meets the requirements of the rule. Certain loans may be exempt from TILA or otherwise exempt from the ATR rule. In those cases, though Oaktree

may choose to purchase a loan that does not adhere to the formal requirements of the ATR rule, Oaktree will only fund or purchase loans that the applicant appears able to afford based on application of prudent underwriting standards.



## 2 GENERAL PROGRAM INFORMATION

### 2.1 OAKTREE FUNDING LOAN PROGRAMS

Oaktree Funding offers several Agency and Non-Agency loan programs. This Underwriting Guideline set focuses specifically on our Non-Agency Advantage, Titanium Advantage, and Investor Advantage Programs See the appropriate Loan Program Matrix for additional details not contained herein. Oaktree requires our partners to select the very best product / program for your borrower, based on their needs and circumstances.

Oaktree Non-Agency Advantage

Oaktree Titanium Advantage

Oaktree Investor Advantage

Other Products Not Covered by these Guidelines Offered by Oaktree Funding:

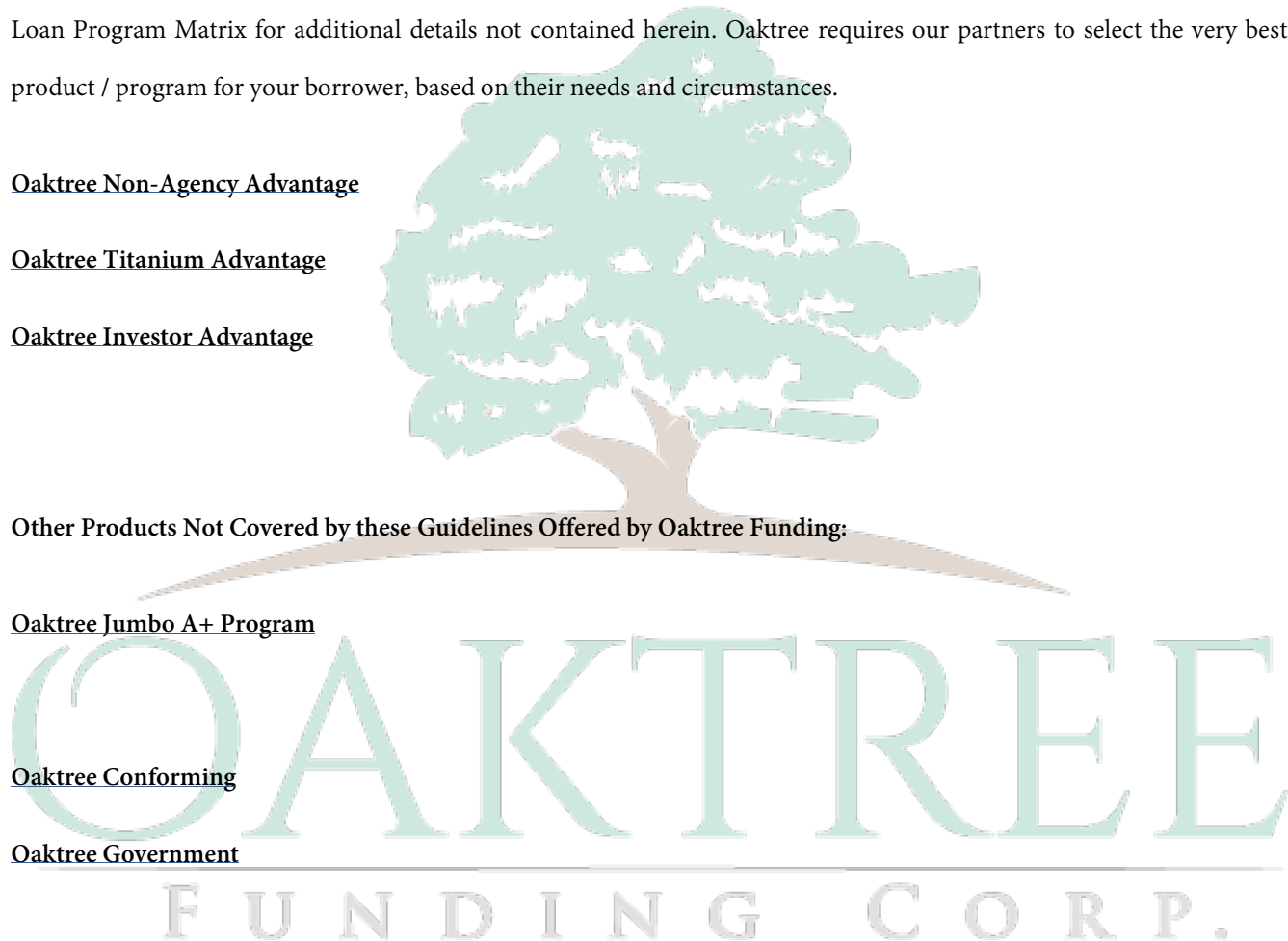
Oaktree Jumbo A+ Program

Oaktree Conforming

Oaktree Government

### 2.2 PRODUCTS

See applicable Product Matrix in Appendix



### 2.3 LOAN AMOUNTS AND LOAN-TO-VALUES

See applicable Product Matrix.

### 2.4 DOCUMENTATION

Documentation of income is allowed under the following options:

- Full Documentation
- Express Documentation defined as:
  - 1 Year Tax Return with a Year-to-Date Profit and Loss Statement or W-2 + Paystub
- Alternative Documentation (Alt-Doc) defined as:
  - 12- or 24-months personal bank statements,
  - 12- or 24-months business bank statements using expense factor calculation from guidelines,
  - 12- or 24-months business bank statements with a profit and loss Statement,
  - CPA Prepared 12 Month P&L validated with 2 Months of Bank Statements
  - or
  - Asset Depletion

### 2.5 LOAN AGE

(Correspondent Loans Only) The period between the note date and the purchaser's funding date cannot exceed 45 days.

### 2.6 PREPAYMENT PENALTIES, POINTS, AND FEES

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

Prepayment penalties on primary residence and second home transactions are prohibited.

Note: States may impose different definitions of points and fees, rate/APR, or prepayment penalties than apply under HOEPA. States may also use different triggers in each category for determining whether a loan will be a "high-cost

mortgage" (or equivalent terms) under state law. As a matter of policy, Oaktree does not purchase or fund loans defined as high-cost mortgages (or equivalent terms) under Federal or state law, regardless of the basis for the loan's treatment as such. Please see the addendum at the end of these guidelines for specific state requirements surrounding prepayment penalties and the verbiage to be used in disclosures and closing documents.

## 2.7 EXCEPTIONS

Exceptions to published guidelines are considered on a case-by-case basis. Loans with exception requests should exhibit strong compensating factors.

### **2.7.1 EXCEPTION TREE**

The exception tree for loans will be updated and managed similarly to the product matrix. The exception tree has been made a part of this guideline as an appendix following these guidelines.

## 2.8 ALTERNATIVE LOAN PROGRAM ANALYSIS

All loan applications are to be reviewed for possible approval under a traditional conventional conforming or FHA loan program offered by the client. Originators and Clients are to complete the **Alternate Program Analysis Form** (found online) to ensure borrowers are proceeding under the appropriate loan program.



# 3 TRANSACTIONS

## 3.1 OCCUPANCY

### 3.1.1 PRIMARY RESIDENCE

A primary residence (or owner-occupied property) is a dwelling occupied by the borrower as his or her principal residence.

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

- Property is in the same general area as the borrower's employment.
- Borrowers intend to occupy the subject property for the majority of the year.
- Property possesses physical characteristics that accommodate the borrower's family.

### 3.1.2 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 restricted to 1-unit dwellings.

Typical second homes should meet the following criteria:

- Be located a reasonable distance away from the borrower's primary residence.
- Must be occupied by the borrower for some portion of the year.
- Suitable for year-round occupancy
- Borrower must have exclusive control over 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.

### 3.1.3 INVESTMENT PROPERTY

An investment property (or non-owner-occupied property) is an income-producing property that the borrower does not occupy.

## **3.2 PURCHASE**

A purchase transaction is one which allows a buyer to acquire a property from a seller. A copy of the fully executed purchase contract and all attachments or addenda is required.

The [lesser](#) of the purchase price or appraised value of the subject property is used to calculate the loan-to-value.

### **3.2.1 DEPARTING RESIDENCE**

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.

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.

If the Borrower is converting a current primary residence to an investment property, Rental Income from the newly converted property can be used to qualify, using 75% of the current lease minus the full PITIA.

All the following must be obtained to confirm leasing of the property:

- Fully executed lease agreement
- Proof of receipt of security deposit
- Proof of receipt of first month's rent

If departing residence is to be leased to a family member, additional conditions may be required.

## **3.3 GENERAL REFINANCE REQUIREMENTS**

[Rate/term refinance](#) and [cash-out refinance](#) transactions are allowed.

### **3.3.1 DETERMINING LOAN-TO-VALUE**

#### Rate & Term Refinance

The appraised value may be used on a Rate and Term Refinance.

#### Cash Out Refinance / Debt-Consolidation



If the property was acquired  $\leq 6$  months from the application date, the loan must meet restrictions under [Cash-Out Seasoning](#) or [Delayed Financing](#) as applicable.

### 3.3.2 BENEFIT TO BORROWER

In keeping with the commitment of responsible lending, 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. Sellers and originators are to complete the *Benefit for 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:

- Underwriter 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
- Underwriter must take special care to ensure a net tangible benefit to the borrower.

### 3.3.3 PROPERTIES LISTED FOR SALE

Properties that have been listed for sale by the borrower within the past 3 months from the loan application date are not eligible for cash out refinances. All properties must be removed from MLS (Multi Listing Service) before the loan

application date. The borrower must also confirm in writing the reason for the prior listing and intent to occupy the subject property.

For cash-out and debt consolidation transactions, if the subject property was listed for sale in the 6 months prior to application date, a 5% LTV reduction from the maximum available for the specific transaction is required.

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 and cash-out transactions.

### **3.4 RATE/TERM REFINANCE**

A rate/term refinance is the refinancing of an existing mortgage for the purpose of changing the interest and/or term of a mortgage without advancing new money on the loan.

The mortgage amount for a rate/term refinance is limited to the sum of the following:

- Existing first mortgage payoff
- Closing costs and prepaid items (interest, taxes, insurance) on the new mortgage
- The amount of any subordinate mortgage liens used in their entirety to acquire the subject property (regardless of seasoning)
- The amount of a home equity line of credit in first or subordinate lien position that was used in its entirety to acquire the subject property (regardless of seasoning)
- Any subordinate financing that was not used to purchase the subject property provided:
  - For closed-end seconds, the loan is at least one year seasoned as determined by the time between the note date of the subordinate lien and the application date of the new mortgage.
  - For HELOCs and other open-ended lines of credit, the loan is at least one year seasoned and there have been less than \$2,000 in total draws over the past 12 months.

On rate/term transactions, the borrower may only receive cash back in an amount that is the less than 2% of the new mortgage balance. Delinquent property taxes can be paid on rate and term transactions provided they are no more than 60 days behind.

### 3.5 CASH-OUT REFINANCE

A cash-out refinance is a refinance that does not meet the rate/term refinance definition. Cash-out would include a refinance where the borrower receives cash from the transaction or when an open-ended subordinate lien (that does not meet the rate/term seasoning requirements) is refinanced into the new transaction.

A mortgage taken out on a property previously owned free and clear is always considered a cash-out refinance.

The mortgage amount for a cash-out refinance transaction may include any of the following:

- Existing first mortgage payoff
- Closing costs and prepaid items (interest, taxes, insurance) on the new mortgage
- The amount of any subordinate mortgage liens being paid off that do not meet seasoning and draw history requirements as described in [3.4 Rate/Term Refinance](#)
- The amount of any non-mortgage related debt paid off through closing.
- Additional cash in hand reflected on the settlement statement.

A signed letter from the borrower disclosing the purpose of the cash-out must be obtained on all cash-out transactions.

The client should ensure the purpose of the cash-out is also reflected on the loan application.

#### **3.5.1 SEASONING**

For all cash-out refinance transactions, a minimum of 6 months must have elapsed since the most recent mortgage transaction on the subject property (either the original purchase transaction or subsequent refinance). Note date to note date is used to calculate the 6 months.

When ownership is transferred from an LLC, Partnership, or S-Corp to an individual 6-month title seasoning may also be waived if the following requirements are met:

- At least one borrower is a managing member of the LLC, Partnership or S-Corp and holds at least 25% ownership.
- The Borrower must have been a managing member of the business entity meeting all requirements prior to the business entity taking ownership of the subject property.
- The business entity must have owned the subject property for at least 12 months with a clean 12-month payment history prior to ownership transfer. Proof of payment history is required.
- The Business Operating Agreement, Articles of Incorporation and applicable ownership transfer deeds may be required.

The seasoning requirement may also be waived when the borrower is recouping monies used to renovate the property. Two eligible comp factors are required. The LTV will be based on the lower of the Appraised Value or Purchase Price + Documented Cost of Improvements.

### **3.5.2 DELAYED FINANCING**

Cash-out on properties purchased by the borrower with cash and owned less than 6 months is allowed. The following requirements apply:

- Original transaction was an arm's-length transaction.
- Settlement statement from purchase confirms no mortgage financing used to acquire subject.
- Source of funds used for purchase documented (gift funds may not be included)
- New loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan.
- All other cash-out refinance eligibility requirements must be met.
- LTV is based on the lesser of the purchase price or appraised value.

### **3.5.3 CASH OUT LIMITS**

Titanium Advantage and Non-Agency Advantage are limited to \$1,000,000 cash in hand to the borrower unless the property is currently owned free and clear or the final LTV will  $\leq 50\%$ , in which case, there is no limit as to the total amount of cash in hand the borrower can receive.

Loans originated under the Investor Advantage program are limited to \$1,000,000 cash in hand unless the final LTV is  $\leq 50\%$  in which case, cash in hand is unlimited.

Cash in hand is defined as the balance of the loan amount after all applicable liens, and closing costs are paid through closing.

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### **3.6 DEBT CONSOLIDATION TRANSACTIONS**

Cash Out Transactions with an LTV  $> 85\%$  are considered debt consolidation transactions and are currently not being offered. A debt consolidation refinance transaction involves the repayment of existing liens and additional consumer debt.

Consumer-debt being consolidation is paid directly through closing and referenced on the Closing Statement. Debt consolidation transactions are allowed under Non-Agency Advantage and Titanium programs.

The following requirements apply to debt consolidation transactions:

- Primary Occupancy Only
- $DTI \leq 45\%$
- Consumer Debt must be 0x30x12
- After debt being paid off (unlimited amount of debt may be paid), Cash to the borrower must be lesser of \$2,000 or 2% of new mortgage balance
- No payment shock requirements
- Non-Occupant Co-Borrowers not allowed
- No Asset Depletion

### **3.6 TEXAS HOME EQUITY LOANS**

A Texas Section 50(a)(6) mortgage is a home equity loan originated under the provisions of Article XVI, Section 50(a)(6), of the Texas Constitution, which allow a borrower to take equity out of a homestead property under certain conditions. All Texas Home Equity transactions must comply with the more restrictive of the Oaktree Funding Eligibility Guidelines or Section 3.7 Texas Home Equity Loans.

#### **3.6.1 CERTIFICATION - TEXAS HOME EQUITY**

The originator certifies that with respect to all the Texas Section 50(a)(6) mortgages delivered to Oaktree Funding: All Texas Section 50(a)(6) mortgages were (or will be) originated pursuant to written processes and procedures that comply with the provisions of the Texas Constitution applicable to mortgage loans authorized by Section 50(a)(6), Article XVI of the Texas Constitution, as amended from time to time.

The originator has in place a specific process for the receipt, handling, and monitoring of notices from borrowers that originator failed to comply with the provisions of the law applicable to Texas Section 50(a) (6) mortgages. Such process

must be adequate to ensure that the originator will correct the failure to comply by one of the authorized means no later than the 60th day after the date the originator is notified of the failure to comply by the borrower.

- An attorney familiar with the provisions of Section 50(a)(6), Article XVI of the Texas Constitution was consulted (or will be consulted prior to origination of the Texas Section 50(a)(6) mortgages) in connection with the development and implementation of the processes and procedures used for the origination of the Texas Section 50(a)(6) mortgages.
- To ensure ongoing compliance with the law applicable to mortgage loans authorized by Section 50(a) (6), Article XVI of the Texas Constitution, the processes and procedures used for the origination of the Texas Section 50(a)(6) mortgages will be reviewed by the originator regularly and will be updated and revised, as appropriate pursuant to clarifications of the law, on a regular and continual basis.
- The originator certifies that it is lawfully authorized to make loans described by Section 50(a)(6), Article XVI, of the Texas Constitution.
- The matters certified herein are representations and warranties of the originator given to Oaktree Funding in connection with each Texas Section 50(a)(6) mortgage.

### 3.6.2 GENERAL REQUIREMENTS - TEXAS HOME EQUITY

The following parameters apply to Texas Section 50(a)(6) mortgages:

- Fully amortized fixed 30 year, 5/1, and 7/1 Arm's
- [Full Documentation, Personal Bank Statement, and Business Bank Statement Documentation](#) allowed.
- Maximum LTV/CLTV 80/80% or limits as posted on applicable matrix, whichever is lower.
- 1-unit properties only

### 3.6.3 LOAN PARAMETERS - TEXAS HOME EQUITY

The following are considered Texas Section 50(a)(6) loans:

- Loans using proceeds to pay off an existing 50(a)(6) loan (as identified in title work)
- Loans using proceeds to pay off federal tax debt liens.
- Loans using proceeds to pay property tax liens on the property securing the new loan.
- Loans using proceeds to pay off or pay down debts that are not secured by the homestead property.
- Loans with any cash back to the borrower

The following are NOT considered Texas Section 50(a)(6) loans:

- Loans using proceeds to pay current taxes due on the property securing the loan.
- Loans using proceeds to buy out equity pursuant to a court order or agreement of the parties (usually applies to a divorce settlement)
- Loan proceeds used to pay a prepayment penalty assessed on an existing non-50(a)(6) loan, and the prepayment is included in the payoff amount (new loan must have a new title policy issued without exception to the financing of the prepayment fee)
- Loans that include the payment of HOA dues if title company requires them to be paid.

### 3.6.4 RESTRICTIONS - TEXAS HOME EQUITY

The following restrictions apply to Texas Home Equity loans:

- Texas Home Equity loans may not be refinanced more than once a year (>12 months)
- There can be only one outstanding 50(a)(6) loan on a property at any given time.
- If the borrower has an existing 50(a)(6) second lien and is getting cash-out from the first mortgage, that lien must be paid off.
- The 50(a)(6) loan may not be used to acquire the property or to finance construction.

### 3.6.5 OCCUPANCY - TEXAS HOME EQUITY

Texas Home Equity loans are allowed on primary residences only. All borrowers on the loan must be on title and occupy the subject property as their primary residence. All borrowers must be on title prior to the application date.

Non-Owner-Occupied Properties are not subject to Texas Home Equity restrictions and are eligible for cash out transactions.

### 3.6.6 BORROWERS - TEXAS HOME EQUITY

The following borrowers are permitted on Texas Home Equity loans. All borrowers must maintain primary occupancy in the subject property:

- U.S. Citizens
- Permanent Resident Aliens

- Non-Permanent Resident Aliens
- Inter Vivos Revocable Trust (must meet Oaktree Funding and Texas Constitution section 50(a)(6) requirements)

The following borrowers are not allowed:

- Co-signer(s)
- Non-occupant co-borrowers
- Borrowers not on title
- Foreign Nationals
- Corporations, partnerships, or LLCs
- Irrevocable trusts

### 3.6.7 NON-BORROWING SPOUSE - TEXAS HOME EQUITY

A married borrower may not create a lien against the property unless his/her spouse consents to the lien by signing the following:

- Notice Concerning Extension of Credit
  - Security Instrument (including any Riders)
  - Federal Truth-in-Lending (TIL) Disclosure Statement
  - Right of Rescission Notice
  - Discount Point Disclosure
  - Acknowledgment of Fair Market Value
  - Premium Pricing Disclosure
- 
- All owners must sign the application and the Notice Concerning Equity Loan Extension of Credit (English or Spanish). The signing of both documents starts the 12-day 'cooling off' period.
  - Notice of Presentment of CD One Day Before Closing
  - Texas Home Equity Affidavit and Agreement
  - Owner's Affidavit of Compliance
  - Receipt of Copies of Documents
  - Certificate of Non-Cancellation of Loan



An owner-in-title (whether a spouse or individual) must sign the application and Texas Home Equity Notice (English or Spanish) at the time of application, along with all appropriate documentation.



### 3.6.8 REFINANCING AN EXISTING HOME EQUITY LOAN - TEXAS HOME EQUITY

Effective for loans made on or after 1/1/18, existing home equity loans (as identified in title work) may be refinanced as non-home equity loans and secured with a lien against the home, provided the following conditions are met:

- the refinance occurs at least a year after the home equity loan was closed.
- the additional loan amount only covers the actual costs of the refinancing and does not provide the consumer with additional funds.
- the value of the new loan combined with the total of the outstanding principal balances of all other valid indebtedness secured by the homestead does not exceed 80% of the fair market value of the homestead on the date the extension of credit is made; and
- the lender provides the homeowner the written notice (required by and promulgated under Section (f)(2)(D) and referenced below) on a separate document no later than the third business day after the date the owner submits the loan application and at least 12 days before the closing of the refinance.

The 'Notice Concerning Refinance of a Texas Home Equity Loan Pursuant to Subsection (f)(2) of Article XVI, Section 50 of the Texas Constitution', must be provided to the owner:



### **NOTICE CONCERNING REFINANCING A HOME EQUITY LOAN**

YOUR EXISTING LOAN THAT YOU DESIRE TO REFINANCE IS A HOME EQUITY LOAN. YOU MAY HAVE THE OPTION TO REFINANCE YOUR HOME EQUITY LOAN AS EITHER A HOME EQUITY LOAN OR AS A NON-HOME EQUITY LOAN, IF OFFERED BY YOUR LENDER.

HOME EQUITY LOANS HAVE IMPORTANT CONSUMER PROTECTIONS. A LENDER MAY ONLY FORECLOSE A HOME EQUITY LOAN BASED ON A COURT ORDER. A HOME EQUITY LOAN MUST BE WITHOUT RECOURSE FOR PERSONAL LIABILITY AGAINST YOU AND YOUR SPOUSE.

IF YOU HAVE APPLIED TO REFINANCE YOUR EXISTING HOME EQUITY LOAN AS A NON-HOME EQUITY LOAN, YOU WILL LOSE CERTAIN CONSUMER PROTECTIONS. A NON-HOME EQUITY REFINANCED LOAN:

- (1) WILL PERMIT THE LENDER TO FORECLOSE WITHOUT A COURT ORDER;
- (2) WILL BE WITH RECOURSE FOR PERSONAL LIABILITY AGAINST YOU AND YOUR SPOUSE; AND
- (3) MAY ALSO CONTAIN OTHER TERMS OR CONDITIONS THAT MAY NOT BE PERMITTED IN A TRADITIONAL HOME EQUITY LOAN.

BEFORE YOU REFINANCE YOUR EXISTING HOME EQUITY LOAN TO MAKE IT A NON-HOME EQUITY LOAN, YOU SHOULD MAKE SURE YOU UNDERSTAND THAT YOU ARE WAIVING IMPORTANT PROTECTIONS THAT HOME EQUITY LOANS PROVIDE UNDER THE LAW AND SHOULD CONSIDER CONSULTING WITH AN ATTORNEY OF YOUR CHOOSING REGARDING THESE PROTECTIONS.

YOU MAY WISH TO ASK YOUR LENDER TO REFINANCE YOUR LOAN AS A HOME EQUITY LOAN. HOWEVER, A HOME EQUITY LOAN MAY HAVE A HIGHER INTEREST RATE AND CLOSING COSTS THAN A NON-HOME EQUITY LOAN.

For loans refinancing an existing home equity loan, the loan file must include the Texas Constitution Section 50(f-1) Affidavit Acknowledging Requirements of Subsection (f)(2), which must be properly executed under Texas law by the owner/owner's spouse.

Note: All the above requirements must be met for the home equity loan to be refinanced as a non-home equity loan.

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### 3.6.9 12-DAY COOLING OFF PERIOD - TEXAS HOME EQUITY

The Notice Concerning Equity Loan Extension of Credit must be provided to the borrower in English and an additional copy of the notice translated into the written language in which the discussions were conducted. To ensure the disclosure is provided to the borrower in the correct language, the loan officer must add a comment to the Loan Submission form identifying the language spoken. The processor must properly identify the language spoken when ordering documents.

- E-consent signatures are acceptable.
- Loan may not be closed until at least 12 calendar days after the borrower has dated and signed the initial application and Notice Concerning Equity Loan Extension of Credit.
- The "cooling off" period in which the borrowers, owners-in-title, and/or spouse (including non-borrowing spouse) can change his/her mind about the Texas Home Equity first mortgage runs from the later of:
  - The date the initial loan application is signed, or
  - The date that the Notice Concerning Equity Loan Extension of Credit is signed and dated by the borrowers, owners-in-title, and/or spouse.

### 3.6.10 PAYOFF OF DEBT - TEXAS HOME EQUITY

Originator may require the payoff of the existing first lien as part of the loan approval when the following requirements are met:

- Originator may not require any other originator-owned debt be paid off as part of the transaction as a condition of loan approval.
- If the payoff of debts to other originators/creditors is required in order to qualify the borrower, then those payoffs must be shown on the settlement statement and disbursed directly to the creditor by the title company.
- Debts that are elected to be paid off by the borrower but are not required to be paid off in order to qualify the borrower, may be disbursed directly to the borrower.

### 3.6.11 SECONDARY FINANCING - TEXAS HOME EQUITY

New subordinate financing is not allowed, but existing subordinate financing may remain in place. See [10.3.15 Secondary/Subordinate Financing](#). Existing subordinate financing is subject to the following:

- Second lien must be re-subordinated.
- Maximum 80% CLTV or limits as posted on applicable matrix, whichever is lower.
- Second lien may not be a HELOC or a reverse mortgage.

### 3.6.12 PROPERTY CHARACTERISTICS - TEXAS HOME EQUITY

All properties must be residential in nature. Tax certification and exemptions for the property are to be reviewed and must meet the following requirements:

- Property must be a principal residence constituting the borrower's homestead in state of Texas.
- The homestead property may not exceed the applicable acreage limit as determined by Texas law.
- All separate structures must be included in the homestead exemption.
- The homestead parcel, as identified on the county appraisal district records, must include ingress/egress to a properly identified public road.
- The new lien may only be secured by the homestead parcel and the market value for LTV calculation can only be assessed on that parcel.



### 3.6.13 URBAN AND RURAL HOMESTEAD DEFINITIONS - TEXAS HOME EQUITY

TEXAS HOME EQUITY HOMESTEAD DEFINITIONS		
	URBAN HOMESTEAD DEFINITION	RURAL HOMESTEAD DEFINITION
<b>ACREAGE</b>	Acreage securing the loan may not exceed 10 acres.	Acreage may exceed 10 acres. However, Oaktree will not lend on properties greater than 20 acres
<b>PROPERTY LOCATION AND SERVICES</b>	<p>Property must be located:</p> <ul style="list-style-type: none"> <li>- Within municipal boundaries, or</li> <li>- Its extraterritorial jurisdiction, or</li> <li>- A platted subdivision and be served by police protection, paid or volunteer fire protection, and at least three of the following services provided by a Municipality or under contract to a municipality:</li> </ul> <p>Electric</p> <p>Natural gas</p> <p>Sewer</p> <p>Storm sewer</p> <p>Water</p>	<p>The property is not located within municipal boundaries or its extraterritorial jurisdiction, or if the property is in one of those types of areas:</p> <ul style="list-style-type: none"> <li>- It is not served by police protection or paid, or volunteer fire protection provided by the municipality or under contract to a municipality, and</li> <li>- The municipality provides directly or under contract less than three (3) of the following services:</li> </ul> <p>Electric</p> <p>Natural gas</p> <p>Sewer</p> <p>Storm sewer</p> <p>Water</p>

Properties determined to be 'Urban' cannot exceed 10 acres. Property determined to be 'Rural' may not exceed 20 acres. The property should conform to and be acceptable in the market area. The appraisal must include the actual size of the site and not a portion of the site.

### 3.6.14 CLOSING REQUIREMENTS - TEXAS HOME EQUITY

#### 3.6.14.1 ATTORNEY REVIEW

All documents must be reviewed by one of the following law firms (other attorneys may be acceptable when approved in advance by Oaktree Funding):

- McGlinchey Stafford and Youngblood & Associates
- Polunsky Beitel Green, LLP
- Brown, Fowler, Alsup
- Beadle, Newman, & Lawler
- Gregg & Valby, LLC
- Black, Mann and Graham, LLP
- Robertson Anschutz Vettors, LLC

#### 3.6.14.2 CLOSING DISCLOSURE AND FINAL LOAN APPLICATION

The final Closing Disclosure (CD) and a copy of the final loan application must be delivered to/accepted by the borrower(s) during normal business hours. The originator is responsible for ensuring all timing requirements under Regulation Z and state law are complied with.

Borrower must sign the Acknowledgment of Itemization of Fees, Points, Interest, Costs and Charges for Texas Home Equity Loan or Line of Credit to evidence their receipt of the final Closing Disclosure and loan application.

#### 3.6.14.3 POINTS AND FEES

Borrower paid fees are limited to 2% of the principal balance (including the origination fee). The following are not included in the 2% limitation:

Lender paid closing costs.

Per diem interest

Bona fide discount points used to reduce the interest rate.

Escrow/impound funds.

Appraisal fee paid to third-party appraiser.

Surveys (completed by state registered or licensed surveyors)

A state base premium for a mortgagee policy of title insurance with endorsements established in accordance with state law; or if a mortgagee title policy is not issued, a title examination report (if cost is less than the state base premium for a mortgagee title policy without endorsements)

If borrowers are paying discount points, the borrowers, owners-in-title and/or spouse must execute the TX Home Equity Discount Point Acknowledgment.

Only fees which are allowed by State Law and RESPA/ECOA regulatory guidelines can be charged to the borrower and MUST be accurate and reflected on the Loan Estimate (LE) and the Closing Disclosure (CD).

#### 3.6.14.4 POWER OF ATTORNEY (POA)

Power of Attorney is not allowed.

#### 3.6.14.5 SURVEY

Surveys are required on all Texas Home Equity transactions to ensure the following:

- Confirm lot size.
- Evidence homestead property and any adjacent land are separate.
- Evidence of homestead and property is a separately platted and subdivided lot for which full ingress and egress is available.
- Properties must be served by municipal utilities, fire, and police protection.
- Homestead must be separate parcel within permissible acreage.

#### 3.6.14.6 TITLE

A title insurance policy written on Texas Land Title Association forms (standard or short) including T42 and T42.1 endorsement is required.

For self-employed borrowers operating a business from the homestead property, the title company must issue a T42.1 endorsement without exception or deletion.

Title may not include language that:

- Excludes coverage for a title defect that arises because financed origination expenses are held not to be “reasonable costs necessary to refinance;” or



- Defines the “reasonable costs necessary to refinance” requirement as a “consumer credit protection” law since the standard title policy excludes coverage when lien validity is questioned due to a failure to comply with consumer credit protection laws.

Loans must be closed in a Texas title company’s office or attorney’s office. No mobile notaries are permitted.



### 3.6.15 TEXAS HOME EQUITY DOCUMENTS

The following additional Texas Home Equity specific documents must be included in the closing package:

- Notice Concerning Extension of Credit Defined by Section 50(a)(6) (signed by each owner of the property and each spouse of an owner)
- Acknowledgment of Fair Market Value of Homestead Property (borrower and originator must sign at closing with an appraisal attached to the Acknowledgment)
- Notice of Right to Cancel (signed by each owner of the property and each spouse of an owner)
- Texas Home Equity Security Instrument (Form 3044.1)
- Texas Home Equity Note (Form 3244.1)
- Texas Home Equity Affidavit and Agreement (Form 3185)
- Texas Home Equity Condo Rider (Form 3140.44), if applicable
- Texas Home Equity PUD Rider (Form 3150.44), if applicable
- Texas Home Equity Certificate from Originating Lender's Regarding Compliance with Section 50(a)(6) Article XVI of the Texas Constitution signed by the sellers Attorney.
- Texas Home Equity Discount Point Acknowledgment, if applicable
- Affidavit of Non-Homestead for all other dwellings if borrower owns more than one.
- Detailed closing instruction letter acknowledged by title company (Compliance Requirements for Texas Home Equity Loans)

Note for any re-subordinating second (cannot be an (a)(6) Note, a new loan or a HELOC) with subordination agreement, if applicable

### 3.6.16 INTEREST ONLY TRANSACTIONS - TEXAS HOME EQUITY

Interest only loans are not eligible for financing or purchase per Texas State Constitution

### 3.7 FLIP TRANSACTIONS

When the subject property is being resold within 365 days of its acquisition by the seller and the sales price has increased more than 10%, the transaction is considered a "flip". To determine the 365-day period, the acquisition date (the day the

seller became the legal owner of the property) and the purchase date (the day both parties executed the purchase agreement) should be used.

Flip transactions are subject to the following requirements:

- All transactions must be arm's length, with no identity of interest between the buyer and property seller or other parties participating in the sales transaction.
- No pattern of previous flipping activity may exist in the last 12 months. Exceptions to ownership transfers may include newly constructed properties, sales by government agencies, properties inherited or acquired through divorce, and sales by the holder of a defaulted loan.
- The property was marketed openly and fairly, through a multiple listing service, auction, for sale by owner offering (documented) or developer marketing.
- No assignments of the contract to another buyer.
- If the property is being purchased for more than 5% above the appraised value, a signed letter of acknowledgement from the borrower must be obtained.
- An additional appraisal product is required. See [11.7.5 Appraisal Review Process](#).

Flip transactions must comply with the HPML appraisal rules in Regulation Z. The full Reg Z revisions can be found at <http://www.consumerfinance.gov/policy-compliance/rulemaking/final-rules/appraisals-higher-priced-mortgage-loans/>.

A second appraisal is required in the following circumstances:

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

#### DSCR Investor Advantage Program

Flips are allowed under the Investor Advantage Program.

A second appraisal is required in the following circumstances:

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

### 3.8 NON-ARM'S LENGTH TRANSACTIONS

Non-arm's length transactions involve a direct relationship outside of the subject transaction between a borrower and a party to the loan. The appraiser must be informed of the relationship and address any impact on market value.

Examples of non-arm's length transactions include, but are not limited to, the following:

- Family member sales
- Renters purchasing from current landlord.
- Buyer trading properties with the seller
- Property seller foreclosure bailouts
- Existing buyer relationship with loan officer, real estate agents, closing agent, appraiser, builder, or developer.

Non-arm's length transactions are subject to all the following requirements:

- Investment properties are allowed if subject property is tenant occupied and sold at fair market value. Seller cannot occupy the property prior to closing or post consummation. 12-month seller mortgage history is required. Seller must be current prior to contract execution and through closing.
- Relationship must be fully disclosed.
- An [appraisal review product](#) is required
- Borrower to provide a written explanation stating relationship to the seller and reason for purchase.
- Borrower to provide a copy of the canceled earnest money check paid to the property seller.
- Sellers must be satisfied that the transaction makes sense, and that the borrower will occupy the property.
- All liens on title to be paid in full and reflected on the settlement statement.
- Lesser of sales price or current appraised value to be used to calculate the LTV.
- Borrowers cannot provide services on transaction (closing agent, title agent, appraiser, etc.)
- Borrower may not be an owner of a business entity selling the subject property.
- **Oaktree will make the final determination on the eligibility of any non-arm's length relationship.**

The following additional requirements apply to family sales:

- Payment history for the seller's mortgage on the subject property must be obtained and show no pattern of delinquency within the past 12 months (if applicable)
- Verification that the borrower has not been on title to the property in the past 24 months.

- [Gift of equity](#) is permitted.

### **3.9 INHERITED PROPERTIES**

Inherited properties are allowed as both rate/term and cash-out transactions. If the subject property was inherited < 12 months prior to application, the transaction is considered a cash-out and subject to the following:

- Equity owners must be paid through settlement. A written agreement signed by all parties stating the terms of the buy-out and property transfer must be obtained.
- Subject property has cleared probate and property is vested in the borrower's name.
- Current appraised value is used to determine loan-to-value.

### **3.10 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 more than 12 months prior to the date of the loan application, the transaction is considered rate/term refinance. If the land contract was executed within 12 months of the date of the loan application, the transaction is considered a purchase.

The following requirements apply:

- Primary residence, Investment Properties and second homes
- Copy of fully executed land contract and payoff(s) to be obtained.
- Copies of canceled checks for 12 months (or term of the lease if less) as evidence of timely payments
- If the land contract was executed less than 12 months ago, the borrower's previous housing payment history must also be verified to in order to provide a complete 12-month history.
- Liens on title to be paid in full and reflected on settlement statement at closing.
- If the contract was executed less than 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 over 12 months ago (This applies to both refinance and purchase transactions.)
- Cash-out and non-arm's length transactions not eligible

- Additional 6 months reserves required on investment property and second home transactions (that require reserves)

### **3.11 LEASE WITH PURCHASE OPTION**

Lease with purchase option transactions is allowed for primary residences only. Borrowers may apply a portion of the rent paid to their down payment requirements. See [10.3.12 Rent Credit for Lease with Purchase Option](#) for detailed requirements.

For lease with purchase option transactions, the file must contain:

- Copy of fully executed rental/purchase agreement verifying monthly rent and the specific terms of the lease; and
- Copies of canceled checks for 12 months (or term of lease if less) as proof of rental payments
- Lease Purchase transactions may be treated as a rate/term refinance, but never as a cash-out

If 12 consecutive monthly lease payments from the borrower to the current property owner or rental agency can be documented, the higher of the original agreed upon purchase price or current appraised value may be used for LTV determination.

### **3.12 PERMANENT FINANCING FOR NEW CONSTRUCTION**

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.

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.

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 [11.8.17 New Construction](#).

- For lots owned  $\geq 12$  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).



# 4 BORROWERS

A borrower is a credit applicant who will have ownership interest in the subject property, sign the security instrument, and sign the mortgage or deed of trust note. If two or more individuals own the property jointly, and are jointly and severally liable for the note, all are borrowers.

## 4.1 CUSTOMER IDENTIFICATION PROGRAM (CIP)

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

## 4.2 FRAUD REPORT AND BACKGROUND CHECK

All loans must include a third-party fraud detection report for all borrowers, borrowing entities and/or guarantors. Report findings must cover standard areas of quality control including, but not limited to borrower validation, social security number verification, criminal records, and property information (subject property and other real estate owned). All high-level alerts on the report must be addressed by the client.

If the client cannot electronically access the fraud report to clear high-level alerts within the fraud provider's system, an Underwriter's Certification may be acceptable. The Certification must address each individual high alert and explain what actions were taken to satisfy the issues. It must be signed and dated by a member of the client's underwriting staff or operations management personnel.

There will be an electronic fraud report used by Oaktree prior to purchasing or funding any loan transaction. The fraud report must indicate a low level of risk in proceeding with the loan transaction.

### **4.2.1 INVESTOR ADVANTAGE**

In addition to the fraud and background check requirements, the client must provide evidence via an unsuccessful return if background check is not available. The fraud check should also include occupancy status to assist in the validation and endorsement of the *Business Purpose & Occupancy Affidavit*.



### 4.3 U.S. CITIZENS

U.S. Citizens are eligible for financing.

### 4.4 PERMANENT RESIDENT ALIENS

A permanent resident alien is a non-U.S. citizen authorized to live and work in the U.S. on a permanent basis. Permanent resident aliens are eligible for financing.

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

- I-151 – Permanent Resident Card (Green Card) that does not have an expiration date.
- I-551 – Permanent Resident Card (Green Card) issued for 10 years that has not expired.
- I-551 – Conditional Permanent Resident Card (Green Card) issued for 2 years that has an expiration date, if it is accompanied by a copy of USCIS form I-751 requesting removal of the conditions.
- Un-expired Foreign Passport with an un-expired stamp reading as follows: “Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until mm-dd-yy. Employment Authorized.”

### 4.5 NON-PERMANENT RESIDENT ALIENS

A Non-Permanent Resident Alien is a non-U.S. citizen authorized to live and work in the U.S. on a temporary basis.

Program Restrictions:

- Maximum 75% LTV/CLTV or limits as posted on applicable matrix, whichever is lower.
- Purchase and Rate/Term Refinance Transactions Only
- Borrowers with diplomatic immunity are not eligible.
- Borrower must have minimum of 2 years residency, with likelihood of employment continuance.
- NOO Transactions would require the borrowers:
  - Own a primary residence in the United States already (12 months evidence required)
  - Borrowers have an SSN (No ITIN)
  - Borrowers must provide a copy of a valid passport from their country of origin with an expiration beyond the VISA

#### 4.5.1 VERIFICATION OF RESIDENCY STATUS

The following visa classifications are allowed as Non-Permanent Resident Aliens:

- A-1, A-2, A-3
- B1 & B2
- E-1, E-2, E-3
- G-1 through G-5
- H-1, H2, H3
- I
- J1, J2
- L-1
- NATO
- O-1, O-2
- P1, P2
- R-1
- TN (NAFTA)

Copies of the borrower's passport and unexpired visa must be obtained. 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). Borrowers unable to provide evidence of lawful residency status in the U.S. are not eligible for financing.

A valid employment authorization document (EAD) must be obtained if the visa is not sponsored by the borrower's current employer. If the visa will expire within 6 months of loan application, it is acceptable to obtain a letter from the employer documenting the borrower's continued employment and continued visa renewal sponsorship (employer on the loan application must be the same as on the unexpired visa).

If a non-U.S. citizen is borrowing with a U.S. citizen, it does not eliminate visa or other residency requirements. Individuals in possession of spouse or family member visas are to qualify as co-borrowers only. A valid EAD must be provided to use income for qualification.

Borrowers who are residents of countries which participate in the Department of Homeland Security'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://www.dhs.gov/visa-waiver-program-requirements>.

#### 4.5.2 CREDIT REQUIREMENTS

A U.S. credit report is required for each borrower on the loan using a valid Social Security number. The credit report should provide merged credit information from the 3 major national credit repositories. A 2-year housing history is required.

#### 4.5.2.1 Qualifying U.S. Credit

The Qualifying U.S. Credit designation refers to a non-U.S. citizen borrower who meets Standard Tradelines in [5.4 Tradeline Requirements](#). A Qualifying U.S. Credit borrower is eligible for all products and programs available on the applicable Oaktree Correspondent Matrix.

#### 4.5.2.2 Qualifying Foreign Credit

The Qualifying Foreign Credit designation refers to non-U.S. citizen borrowers who do not meet the Standard Tradeline requirements. A borrower classified as a Qualifying Foreign Credit will not be eligible for Non-Agency Advantage, Titanium Advantage, or Investor Advantage.

### 4.5.3 INCOME/EMPLOYMENT REQUIREMENTS

Standard guidelines apply for verifying income and employment of Non-Permanent Resident Aliens. Only borrowers with an E-1 or E-2 Visa are eligible for bank statement qualification. All other Non-Permanent Resident Aliens will require an exception to utilize bank statements. If an exception is not granted, the borrower must be qualified under Full Doc or DSCR only.

### 4.5.4 ASSETS

[Qualifying U.S. Credit](#): Non-Permanent Resident Aliens must have 6 months of PITIA reserves for the subject property.

All funds for the transaction must be seasoned for 60 days (or sourced). See [7.3 Asset Documentation](#).

Assets used for down payment and closing costs must also be seasoned in a U.S. depository institution for 30 days prior to closing. Assets held in foreign accounts are eligible for reserves. See also [10.3.8 Foreign Assets](#).

## 4.6 FOREIGN NATIONALS

Loans to Foreign National borrowers are currently ineligible. A Foreign National is a non-U.S. citizen authorized to live in the U.S. on a temporary basis but does not meet the definition of a Non-Permanent Resident Alien.

### 4.6.1 VERIFICATION OF RESIDENCY STATUS

Borrowers in the country under one of the below VISA's would be considered Foreign Nationals and therefore ineligible for financing:

- B-1 and B-2
- H-2 and H-3
- I
- J-1 and J-2
- O-2
- P-1 and P-2

If a non-U.S. citizen is borrowing with a U.S. citizen, it does not eliminate visa or other residency requirements. Individuals in possession of spouse or family member visas are to qualify as co-borrowers only. A valid EAD must be provided to use income for qualification.



## 4.6.2 CREDIT REQUIREMENTS

A U.S. credit report should be obtained for each Foreign National borrower with a valid Social Security Number. The credit report should provide merged credit information from the 3 major national credit repositories.

For borrowers without a valid Social Security Number, an Individual Taxpayer Identification Number (ITIN) is also allowed. An ITIN is acceptable if the borrower has the ITIN for purposes of reporting taxes from passive income sources only and is not employed in the U.S. A traditional U.S. credit report is not required for borrowers without a valid SSN.

Foreign National borrowers who do not have an SSN or ITIN may still proceed under the Foreign National Program. All other program requirements still apply.

Use 640 FICO score for all foreign national pricing regardless of product or credit scores reflected on any credit reports. See applicable Oaktree Funding matrices for additional information.

### 4.6.2.1 QUALIFYING U.S. CREDIT

The Qualifying U.S. Credit designation refers to non-U.S. citizen borrowers who meet Standard Tradelines in [5.4 Tradeline Requirements](#).

### 4.6.2.2 QUALIFYING FOREIGN CREDIT

The Qualifying Foreign Credit designation refers to non-U.S. citizen borrowers who do not meet the Standard Tradeline requirements. A Qualifying Foreign Credit borrower may or may not have a U.S. credit report with no credit score, a single score, or a score with insufficient tradelines.

Qualifying Foreign Credit borrowers must establish an acceptable credit history subject to the following requirements:

- Three open accounts with a 2-year history must be documented for each borrower reflecting no late payments.
- A 2-year housing history can be used as tradeline.
- U.S. credit accounts can be combined with letters of reference from verifiable financial institutions in a foreign country to establish the 3 open accounts and an acceptable credit reputation. If letters of reference are obtained, they must:
  - State the type and length of the relationship, how the accounts are held, and status of the account.
  - Contact information must be provided for the person signing the letter; and

- Any translation must be signed and dated by a certified translator.

#### 4.6.2.3 MORTGAGE AND RENTAL PAYMENT VERIFICATION

A 12-month housing history is required for Foreign National transactions. Mortgages and rental payments combined may not exceed 1x30 in the past 12 months.

#### 4.6.3 INCOME/EMPLOYMENT REQUIREMENTS

Foreign Nationals may qualify under any of the following documentation types:

- Full Documentation
- Asset Depletion
- DSCR/No Ratio

##### 4.6.3.1 FULL DOCUMENTATION

The maximum DTI allowed for Foreign National borrowers is 50%. To document income received for salaried Foreign National borrowers, the following items must be obtained:

- Letter from employer on company letterhead providing current monthly salary and YTD earnings, OR 2 months' pay stubs with YTD earnings.
- Verification of earnings for the last 2 years (letter from employer or W-2 equivalent)
- Employer to be independently verified (via LexisNexis, D&B International Business Search, Google, or other means of verification)
- All documents must be translated by a certified translator.

Foreign National borrowers who have been self-employed for at least 2 years are allowed. The following items must be obtained:

- Letter from a CPA providing income for the last 2 years and YTD earnings.
- Self-employed business and CPA are to be independently verified (via LexisNexis, D&B International Business Search, Google, or other means of verification)
- All documents must be translated by a certified translator.

Verbal Verifications of Employment are not required for Foreign National borrowers.

#### 4.6.3.2 ASSET DEPLETION

Foreign National borrowers may not use Asset Depletion to determine qualifying income. See section [8.4.2 Asset Depletion](#) for additional information.

#### 4.6.4 ASSETS

Verification of 12 months PITIA reserves for the subject property is required for transactions using Full Documentation or Asset Depletion. Reserves are not required on DSCR and No Ratio loans.

All funds required for down payment, closing costs, and reserves on Foreign National transactions must be seasoned in a U.S. depository institution for 30 days prior to closing.

Foreign assets deposited into a U.S. institution within 60 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 belonged to the borrower before the date of transfer. The most recent 60-day account statement is required.

Assets held in a foreign account can be used for reserves. The most recent 30-day account statement is required, and funds are to be converted to U.S. dollars using the current exchange rate. A letter of reference on company letterhead from a verifiable banking institution may also be obtained. Contact information must be provided by the person signing the letter, and the letter must state the type of relationship, length of the relationship, how accounts are held, and current balance.

Any translation must be signed and dated by a certified translator.

#### 4.7 EXCLUSIONARY LIST/OFAC/DIPLOMATIC IMMUNITY

All parties involved on each transaction must be screened through any exclusionary list used by the seller. The seller should apply its exclusionary list policy to any loans originated under these guidelines.

Parties to the transaction must also be cleared through OFAC's SDN List (borrowers, property sellers, employers, banks, etc.). A search of the Specially Designated Nationals and Blocked Persons List may be completed via the U.S. Department of the Treasury website: <https://sanctionssearch.ofac.treas.gov/>

Borrowers from OFAC sanctioned countries are ineligible. Access the link below for a list of sanctioned countries: <http://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.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, passport, and/or the U.S. Department of State's Diplomatic List at <http://www.state.gov/s/cpr/rls/>.

#### **4.8 CO-BORROWERS**

Co-borrower is often used to describe any borrower other than the first borrower whose name appears on the note. All borrowers are evaluated on their ability to meet credit requirements and underwriting and eligibility standards. All co-borrowers must occupy and take title to the subject property. Co-borrowers may not be an interested party to the transaction. Possible examples include, but are not limited to, property seller, builder, realtor, appraiser (a buyer who also acts as their own buying agent is generally permitted.)

#### **4.9 NON-OCCUPANT CO-BORROWERS/CO-SIGNERS/ GUARANTORS**

Non-occupant co-borrowers are credit applicants who do not occupy the subject property as a principal residence. Non-Occupant Co-Borrowers must meet the following requirements:

- Do not occupy the subject property as a principal residence.
- Must be an immediate relative, proof of relationship is required.
- Must sign the mortgage or deed of trust.
- Must not have an interest in the property sales transaction, such as the property seller, builder, or real estate broker.
- Maximum LTV/CLTV 75% or limits as posted on applicable matrix, whichever is lower.
- Single unit only
- Maximum DTI 43%
- An additional 6 months' reserves are required.
- Occupying borrower must have documented income equal to 75% of the required PITI.
- Cash Out & Debt Consolidation loans not permitted.
- Second homes are not permitted.
- Minimum 24-months seasoning from any derogatory housing or credit events required.



#### 4.10 FIRST-TIME HOME BUYERS

First Time Homebuyers (“FTHB”) are individuals that have not owned a home or had a residential mortgage in the last 5 years.

- Fixed Rate Mortgage and 7/1, and 5/1 ARM’s Are Permitted
- Primary Residence and Second Homes allowed
- Investment properties will be reviewed on a case-by-case basis when the buyer lives in a high-cost lending area and has demonstrated a high propensity for repayment of debt. \*\* MIN FICO FOR INVESTOR ADVANTAGE = 720
- Minimum of 6 months PITI reserves required.
- Maximum Payment Shock 250%

#### 4.11 LIMITED POWER OF ATTORNEY

A Limited Power of Attorney (POA) is acceptable when following requirements are met:

- POA is specific to the transaction.
- Recorded with the Mortgage/Deed of Trust
- Contains an expiration date.
- Used only to execute the final loan documents.
- Borrower who executed the POA signed the initial 1003.
- No interested party to the transaction (such as property seller, broker, loan officer, realtor, etc.) may act as Power of Attorney.
- Not permitted on cash-out or Foreign National transactions

#### 4.12 VESTING AND OWNERSHIP

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

- Individuals
- Joint tenants
- Tenants in Common (Vesting only – TIC Properties are not allowed)

- [Limited Liability Company \(LLC\)](#)
- [Limited and General Partnerships](#)
- [Corporations](#)

#### 4.12.1 INTER VIVOS REVOCABLE TRUST

Not Permitted (Must be Removed prior to Closing)

#### 4.12.2 LIMITED LIABILITY COMPANY (LLC)

Vesting in the name of an LLC is acceptable under the Investment Property Program. Clients must ensure loans vested in an LLC are solely business-purpose loans for the purchase or refinance of an investment property. The following standards apply:

- Purpose of the LLC is for the ownership and management of real estate.
  - The borrower(s) must be majority owners or managing members of the LLC. For LLC's with multiple owners Oaktree will require that each borrower own no less than 25% of the vesting business. All of this information must be supported in the operating agreement and/or the articles of incorporation.
- Loan must be disclosed to all borrowers.

The following LLC documentation must be provided:

- Articles of Incorporation
- Operating Agreement
- Tax Identification Number
- Certificate of Good Standing
- A personal guaranty is required as well

#### 4.12.3 LIMITED AND GENERAL PARTNERSHIPS AND CORPORATIONS

Vesting in the name of a partnership or corporation is acceptable under the OFC Standard Investor and Professional Investor Programs only. Clients must ensure loans vested in a business entity are solely business-purpose loans for the purchase or refinance of an investment property.

##### 4.12.3.1 Guaranty

A personal guaranty is required for loans vested in a partnership or corporation, subject to the following requirements:

- The guarantor must be an individual person and not a business entity.
- The guarantor must be a managing member or majority owner of the business entity. Each borrower can own no less than 25% of the vesting business.
- The guarantor is subject to the same credit requirements and fraud checks as individual borrowers.

#### **4.12.3.2 Entity Identity Review Process**

Oaktree will review all entity documents to ensure the borrowing entity is duly formed with full authority to conduct real estate transactional and borrowing activity as stated in their organizational documents. The following business entity documentation must be provided:

- Articles of Incorporation
- Operating Agreement and Corporate Resolutions
- Tax Identification Number
- Certificate of Good Standing

Furthermore, Oaktree Mortgage will ensure the individual signing on behalf of the borrowing entity has the authority to bind the entity. Confirmation of good standing status must be reviewed on state websites to ensure borrowing counterparties are current on all state taxes and fees. Any entity must be in good standing and provide proper formation. See [4.2 Fraud Report and Background Check](#).

#### **4.13 MULTIPLE FINANCED PROPERTIES AND OAKTREE EXPOSURE**

Oaktree Funding exposure may not exceed \$5M aggregate with a maximum of five loans for each individual borrower. Exceptions to this policy will be reviewed on a case-by-case basis.

Borrower may have an unlimited number of financed properties under the Non-Agency Advantage, Titanium, and Investor Advantage Program.

#### **4.14 INELIGIBLE BORROWERS**

The following borrowers are not eligible:

- Borrowers with diplomatic immunity or otherwise excluded from U.S. jurisdiction.

- Residents of any country not permitted to transact business with US companies are ineligible (as determined by any U.S. government authority)
- Irrevocable or Revocable Trusts or Land Trusts
- Borrowers less than 18 years old
- Loans to employees of client



# 5 CREDIT ANALYSIS

## 5.1 EQUAL CREDIT OPPORTUNITY ACT, FAIR HOUSING ACT & STATE FAIR LENDING LAWS

The Federal Equal Credit Opportunity Act prohibits lenders from discriminating against credit borrowers based on 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.

Similarly, the Fair Housing Act prohibits lenders from discriminating against mortgage borrowers based on race, color, religion, sex, familial status, national origin, or disability.

Oaktree expects clients originating loans for Oaktree to adhere to the letter and spirit of federal and state fair lending laws.

## 5.2 CREDIT REPORT

A credit report is required for every borrower, guarantor, and any majority member of a borrowing entity. The credit report should provide merged credit information from the 3 major national credit repositories. A valid Social Security number (SSN) is required for all borrowers on the loan.

Either a three-bureau merged report, or a Residential Mortgage Credit Report (RMCR) 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 individual has resided in the last 2 years.

### **5.2.1 AGE OF CREDIT REPORT/CREDIT DOCUMENTATION**

All credit documentation, including the credit report, may not be more than 120 days old at the time of closing.

### **5.2.2 FRAUD ALERTS**

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

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

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

### **5.2.3 CREDIT REPORT SECURITY FREEZE**

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

### **5.2.4 INQUIRIES**

A signed letter of explanation from the borrower or creditor is required for all inquiries within the most recent 120 days to determine whether additional credit was granted as a result of the borrower's request.

### **5.2.5 UPDATED PAYMENT HISTORIES**

Payment histories may be requested directly from a creditor when the credit report indicates delinquencies have been removed or when the majority of credit is from a non-institutional lender.

### **5.2.6 GAP CREDIT REPORT**

A gap credit report is required within 10 days of closing. Gap Credit reports are NOT required on DSCR transactions.

## **5.3 CREDIT SCORE REQUIREMENTS**

### **5.3.1 DETERMINING PRIMARY WAGE EARNER**

#### **5.3.1.1 FULL DOCUMENTATION LOANS**

The primary wage-earner score is used as the Representative Credit Score for each loan. The primary wage-earner must have a valid score from at least 2 of the following 3 agencies: Experian (FICO), Trans Union (Empirica), and Equifax

(Beacon). Only scores from these agencies are acceptable. See the applicable program matrix for minimum FICO eligibility requirements. To determine the Representative Credit Score for the primary wage-earner, select the middle score when 3 agency scores are provided and the lower score when only 2 agency scores are provided.

### 5.3.1.2 ALTERNATIVE DOCUMENTATION LOANS

For loans where the borrower is qualifying using alternative income documentation, the borrower making the greater amount of income is still considered the primary wage earner. However in situations where both borrowers are “owners” of the same business, regardless of percentage of ownership, the lower of both (or all) qualifying borrower’s middle credit score is used. (See 5.3.1.1).

### 5.3.1.3 DSCR LOANS

The applicable credit score is the middle of three scores provided for any borrower. If only two credit score are obtained, the lesser of two will be used. When there are multiple borrowers, the lowest applicable score from the group of borrowers/guarantors is the representative credit score for qualifying.

## 5.4 TRADELINE REQUIREMENTS

### MINIMUM TRADELINES

TRADELINES	OCCUPANCY	MINIMUM REQUIREMENTS
STANDARD TRADELINES	All Properties and Transaction Types	3 tradelines reporting for 12+ months with activity in last 12 months, or 2 tradelines reporting for 24+ months with activity in last 12 months
*LIMITED TRADELINES	Primary and Second Homes	<b>See 5.4.2 LIMITED TRADELINES</b>

\*Not allowed on Investment Property Program(s)

Only the primary wage-earner must meet the minimum tradeline requirements listed above.

To qualify as an acceptable tradeline, the credit line must be reflected on the borrower's credit report. The account must have activity in the past 12 months and may be open or closed. Accounts with delinquencies are allowed when the account is no more than 30-days past due at time of application. An acceptable 12- or 24-month housing history not reporting on credit may also be used as a tradeline.

Credit lines on which the borrower is not obligated to make payments are not acceptable for establishing a minimum history. Examples of unacceptable tradelines include loans in a deferment period, collection or charged-off accounts, accounts discharged through bankruptcy, and authorized user accounts. Student loans can be counted as tradelines if they are in repayment and are not deferred.

DSCR Program Note:

For any DSCR Investor Program, all borrowers must meet the minimum tradeline requirements.

#### 5.4.1 STANDARD TRADELINES

Borrowers qualifying with Standard Tradelines are eligible for all occupancy types and programs.

#### 5.4.2 LIMITED TRADELINES

The following requirements apply when qualifying with Limited Tradelines:

- Primary residence and second homes only
- 10% minimum borrower contribution
- Minimum 6 months reserves after closing.

**Maximum LTV/CLTV 85% or limits as posted on applicable matrix, whichever is lower**  
**INSUFFICIENT TRADELINES/NON-TRADITIONAL CREDIT**

Non-traditional credit is not allowed. Each borrower must have a valid and usable score as defined in [5.3 Credit Score Requirements](#).

#### 5.5 MORTGAGE AND RENTAL PAYMENT VERIFICATION

A combined total of all late mortgage and rental payments in the past 12 months must be used to determine the housing history. *For Private party landlords a VOR (or a copy of the current lease) will be required ALONG with 12 months cancelled*



checks. A VOR without cancelled checks is allowed for properties managed by a Professional Management Company. Oaktree must be able to verify the existence of the Professional Management Company online. A VOM along with proof of monthly housing payments made over the last 12 months is required when the borrower is making mortgage payments to a non-institutional lender or private party not appearing on credit. Cancelled checks, Bank transaction history reports and Lender Mortgage History reports are acceptable proof of payment history over the last 12 months.

All mortgages and rental payments should be current at time of closing. If the credit report or VOR/VOM reflects a past-due status, updated documentation is required to verify account is current.

Oaktree will require that all disputes be removed on disputed mortgage accounts with delinquent mortgage payments reported within the last 36 months. An updated credit report with new scores will be required. Removal of dispute can be waived if proof of timely payments are provided.

#### **5.5.1 NON-AGENCY ADVANTAGE HOUSING VERIFICATION**

See Applicable Program Matrices for specific Mortgage Delinquencies permitted.

See [5.17 Housing Events](#) for definition of Recent Housing Event.

#### **5.5.2 NO HOUSING HISTORY OR LESS THAN 12 MONTHS VERIFIED**

Borrowers who do not have a complete 12-month housing history are subject to the following restrictions:

- Primary residence only
  - Minimum 6 months reserves after closing.
  - 10% minimum borrower contribution
  - Payment Shock is not considered.
- 
- VOR/VOM must be obtained for all months available reflecting paid as agreed.
  - Properties owned free and clear are considered 0x30 for grading purposes.

#### **5.5.3. MORTGAGE MODIFICATION**

A mortgage modification will be deemed a housing event when ([5.17 Housing Events](#)) the borrower was 30 days late (or more) within 3 months of the execution of the modification. Examples of modifications include (but are not limited to)

- Forgiveness of a portion of principal and/or interest on either the first or second mortgage

- Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness.
- Interest rate of the loan was lowered, or the maturity of the loan was extended.
- Conversion of any portion of the original mortgage debt to a “soft” subordinate mortgage
- Conversion of any portion of the original mortgage debt from secured to unsecured.
- The above text applies unless the loan was current prior to the modification was granted / approved.



## **5.6 CONSUMER LATE PAYMENTS**

See Applicable Program Matrices for specific consumer late restrictions.

## **5.7 ROLLING LATE PAYMENTS**

Rolling late payments are not considered a single event. Each occurrence of a contractual delinquency is considered individually for loan eligibility.

## **5.8 PAST DUE ACCOUNTS**

All past due accounts must be brought current prior to closing.

## **5.9 WRITTEN EXPLANATIONS FOR DEROGATORY CREDIT**

Recent Housing Events and bankruptcies in the most recent 4 years must be explained by the borrower with a signed letter of explanation. Housing lates  $\geq 60$  days in the last 12 months also require written explanation. Supporting documentation may be required.

## **5.10 DELINQUENT CREDIT BELONGING TO EX-SPOUSE**

Delinquent credit belonging to an ex-spouse can be excluded from the credit evaluation when all 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.
- Late payments occurred after the date of the divorce or separation.
- Evidence of title transfer prior to any delinquent debt must be provided if debt is a mortgage, and evidence of “buyout” as part of court proceedings.

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.

See also [6.6 Contingent Liabilities](#).

## 5.11 LAWSUIT/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.

## 5.12 CONSUMER CREDIT COUNSELING SERVICE (CCCS)

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

If accounts included in CCCS plan reflect as charge-off or collection accounts on the credit report, then exclude these balances from the charge-off and collection limits in [5.13 Collections and Charge-offs](#). The monthly CCCS plan payment must be included in the DTI calculation.

If a completion date is not shown on the credit report, the borrower is required to submit verification from the counseling agency establishing the date of completion.

## 5.13 COLLECTIONS AND CHARGE-OFFS

The following accounts may remain open:

- Consumer collections and charge-offs < 24 months old with a maximum cumulative balance of \$5,000
- Consumer collections and charge-offs > 24 months old with a maximum of \$5,000 per occurrence
- Consumer collections and charge-offs that have passed beyond the statute of limitation for that state (supporting documentation required)
- All medical collections

EXCEPTION REQUIREMENTS:

Collection and charge-off account balances THAT DO NOT MEET the exclusions listed above may remain open when one of the following is met:

- Borrower has sufficient reserves to cover remaining collection and charge-off balances (in addition to the published reserve requirement.); or
- Payment for remaining collections and charge-offs included in DTI results in final DTI < 50% (payment calculated at 5% of balance of remaining unpaid collections and charge-offs) – Not allowed on DSCR loans.

A combination of the two options above is allowed on all programs except DSCR. A portion of the unpaid collection balance can be included in the DTI while the remainder is covered by excess reserves. Collections and charge-offs that cannot be factored into DTI or reserves must be paid off.

DSCR transactions will not require the payoff of consumer collections/charge offs that do not meet the Oaktree “Standard” or “Exception Requirements.”

#### 5.14 JUDGMENTS AND TAX LIENS

Judgments and tax liens must be paid off prior to or at closing unless the requirements listed below are met. Adverse credit that will impact title must be paid in full as title must insure our lien position without exception.

Court-ordered judgments may remain open when all the following requirements are met (not permitted under the Investor Advantage Program):

- A copy of the repayment agreement is obtained.
- A minimum of **2** months has elapsed on the plan and evidence of timely payments for the most recent **2** months is provided (**For new installment plans, payments may be made in advance**); and
- The maximum payment required under the plan is included in the debt-to-income ratio.

Outstanding tax liens may remain open on purchase transactions only (additional LTV reductions may be required based on the size of the lien). All the following requirements must be met:

- A copy of the repayment agreement is obtained.
- A minimum of **2** months has elapsed on the plan and evidence of timely payments for the most recent **2** months is provided (**For new installment plans, payments may be made in advance**); and

- The maximum payment required under the plan is included in the debt-to-income ratio; and
- The title company must provide written confirmation confirming (a) the title company is aware of the outstanding tax lien, and (b) there is no impact to first lien position.

## 5.15 CHAPTER 7, CHAPTER 11 & CHAPTER 13 BANKRUPTCY

See Applicable Program Matrices for specific Bankruptcy seasoning requirements.

A Chapter 13 bankruptcy may remain open after loan closing when all of the following requirements are met:

- A minimum 12-month repayment period in the bankruptcy has elapsed.
- Bankruptcy plan payments for the last 12 months have been made on time.
- The borrower has received written permission from bankruptcy court to enter into the mortgage transaction.
- Full bankruptcy papers may be required.

A [cash-out refinance](#) to pay off the remaining balance of a Chapter 13 bankruptcy is allowed. In addition to meeting the requirements listed above, the transaction must provide an overall reduction in monthly obligations for the borrower.

Chapter 13 seasoning based on filing date.

## 5.17 HOUSING EVENTS

A Housing Event is any one of the following events listed below. If the Housing Event occurred within 48 months of closing, it is considered a Recent Housing Event:

- Foreclosure
- Notice of Default (NOD) on any property the borrower has ownership interest.
- Lis Pendens associated with the subject property
- Deed-in-Lieu
- Short Sale
- Modification (Unless Current before Modification)
- 1 x 120

Seasoning of a foreclosure, deed-in-lieu, or short sale is measured from the date of completed sale or final property transfer. The Housing Event must be completed prior to loan closing with no outstanding deficiency balance remaining.

For a 120-day mortgage late, seasoning is from the date the mortgage was brought current. Seasoning for a modification is from the date the modification was executed. See also 5.5.3 Mortgage Modification.

If the property was surrendered in a Chapter 7 bankruptcy, the bankruptcy discharge date is used for seasoning. Bankruptcy papers may be required to show the property was surrendered. The foreclosure action is not required to be fully complete.

There will be no seasoning required for a NOD/Lis Pendens that is released prior to closing if there was no history of delinquent mortgage payments associated with the original filing of the NOD/Lis Pendens (i.e., closed lawsuits or matured balloons.) A Lis Pendens that is not related to mortgage default will not be counted as a Housing Event. Oaktree will not allow a borrower to close with an active NOD/Lis Pendens regardless of if the NOD/Lis Pendens is mortgage related.

See Applicable Program Matrices for Specific Housing Event Seasoning Requirements.

#### **5.17.1 PERMITTED HOUSING EVENTS**

See Applicable Program Matrices for Specific Housing Event Restrictions.

## **6 LIABILITIES**

### **6.1 INSTALLMENT DEBT**

Installment debt is a monthly obligation with fixed payments and terms. Payments on installment loans must be included in the borrower's debt-to-income ratio.

Payments can be excluded if there are 10 or fewer monthly payments remaining to pay the debt in full. If the payment is substantial and exceeds 5% of the borrower's qualifying income, the client should review the overall transaction to ensure the remaining payments will not impact the borrower's ability to handle the new mortgage payment.

Installment debt paid in full prior to closing can be excluded from the debt-to-income ratio. 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.

## 6.2 REVOLVING DEBT

Revolving debt is open-ended debt in which the principal balance may vary from month to month. The minimum required payment as stated on the credit report or current account statement should be used to calculate the debt-to-income ratio. If no payment is stated on the credit report, the greater of \$10 or 5% of the current balance should be included in the debt-to-income ratio calculation.

Revolving accounts can be paid off prior to or at closing in order to exclude the payment from the debt ratio. 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. See [7.3 Asset Documentation](#) for sourcing and seasoning requirements.

## 6.3 AUTHORIZED USER ACCOUNTS

Authorized user account should not be considered in the borrower's debt to income ratio **and review of derogatory consumer debt**. A Credit supplement showing the borrower is not financially obligated to the authorized account may be required for collections or charge offs required to be paid.

## 6.4 BUSINESS DEBT

A business debt is a financial obligation of a business and can be the sole responsibility of the business or be personally secured by the business owner, making that person also liable for the debt.

Debts paid by the borrower's business can be excluded from the debt-to-income ratio with any of the following supporting documentation:

- Most recent 6 months canceled checks drawn against the business account; and
- Tax returns reflect the business expense deduction

If the debt is less than 6 months old, the payment must be included in the debt-to-income ratio.



## **6.5 CHILD SUPPORT, ALIMONY OR MAINTENANCE OBLIGATIONS**

Monthly alimony, child support or separate maintenance fees should be current at time of application and must be included in the borrower's debt-to-income ratio. File should contain supporting documentation as evidence of the obligation, such as a final divorce decree, property settlement agreement, signed legal separation agreement, or court order. If payments are past due, the arrearages must be brought current prior to loan closing.

If 10 or fewer payments remain, see [6.1 Installment Debt](#) to determine if the obligation may be excluded from the DTI calculation.

## **6.6 CONTINGENT LIABILITIES**

An individual has a contingent liability when an outstanding debt has been assigned to another party and the creditor does not release the borrower from 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): file must include the court order and evidence of transfer of ownership.
- Mortgage assumption by third party: file must include the formal assumption agreement and evidence of transfer of ownership.
- Court ordered assignment of debts: file must include a copy of the court order assigning the debt to another party.

The client is not required to evaluate the payment history for the assigned debt after the effective date of the assignment.

## **6.7 DEBTS PAID BY OTHERS**

When a borrower is obligated on a non-mortgage debt but is not the party repaying the debt, the monthly payment may be excluded from the borrower's recurring monthly obligations with evidence that a non-mortgage debt has been paid on-time by another party for the past 12 months. This policy applies whether the other party is obligated on the debt but does not apply if the other party is an interested party to the subject transaction (such as the seller or realtor). Non-mortgage debts include installment loans, student loans, revolving accounts, lease payments, alimony, child support, and separate maintenance.

When a borrower is obligated on a mortgage debt but is not the party who is repaying the debt, the full monthly payment may be excluded from the borrower's recurring monthly obligations if:

- The party making the payments is obligated on the mortgage debt.
- There are no delinquencies in the most recent 12 months.
- The borrower is not using the rental income from the applicable property to qualify.
- Does not apply to the primary residence when the borrower is obligated on the primary residence mortgage.

Please see section [6.4 Business Debt](#) for more information

## **6.8 HOUSING PAYMENTS**

The monthly mortgage payment (PITIA) used for qualification consists of the following:

- Principal and Interest
- Hazard and flood and insurance premiums
- Real Estate Taxes
- Special Assessments
- Association Dues
- Any subordinate financing payments on mortgages secured by the subject property.

## **6.9 LEASE OBLIGATIONS**

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

## **6.10 MATERIAL RECURRING NON-DEBT OBLIGATIONS**

Clients are not permitted to make inquiries or verifications prohibited by Regulation B.

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 year.

If the borrower informs the client of a recurring non-debt obligation, the loan file must be noted. If the client 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 client's ability to repay policies and in a form acceptable to Oaktree.

### **6.11 OPEN 30-DAY CHARGE ACCOUNTS**

For open 30-day charge accounts that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, 5% of the outstanding balance will be considered to be the required monthly payment.

Open-end accounts do not have to be included in the monthly debt payment if the borrower has sufficient funds to pay off the outstanding account balance. The funds must be verified in addition to any funds required for closing and reserves.

If the borrower paid off the account balance prior to closing, the client may provide proof of payoff in lieu of verifying funds to cover the account balance.

### **6.12 RETIREMENT/SAVINGS PLAN LOANS**

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

### **6.13 STUDENT LOANS**

Student loan obligations must be included in the debt-to-income ratio calculation, whether they are deferred or in repayment. If no payment is shown on the credit report, then the payment should be provided by the student loan lender.

If a payment is unable to be determined, 0.5% of the current loan balance may be used.

### **6.14 TIMESHARES**

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

## 6.15 UNDISCLOSED DEBTS

If asset statements provided reflect payments made on obligations not listed on the credit report or 1003, additional information must be obtained to determine if the liability should be included in the borrower's debt-to-income ratio.

If the obligation does not belong to the borrower, supporting documentation is required. If there is a non-borrower also on the account, a signed 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.



# 7 DOCUMENTATION

## 7.1 AGE OF LOAN DOCUMENTATION

Unless otherwise noted, all loan documentation must be dated within 90 days of closing except for the credit report and appraisal, both of which are good for 120 days

## 7.2 EMPLOYMENT/INCOME DOCUMENTATION

Documentation of income is allowed using either Full Documentation or Bank Statement Documentation

### DSCR Program Note:

There is no employment verification or income analysis under the DSCR Investor Program.

### **7.2.1 IRS 4506-T**

For Full Documentation loans or loans with a limited or expanded review of tax returns, IRS Form 4506-T must be completed and signed by all borrowers both at application and closing. The form must request the appropriate documentation type (W-2s, full tax transcripts, etc.) and be executed by the client prior to closing. Transcripts are not required for business returns.

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 client.

Bank Statement or Asset Depletion loans do not require a 4506-T to be executed.

### **7.2.2 PAY STUBS AND W-2S**

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). Also, Social Security and Medicare withholding should be calculated at the appropriate rates on the W-2s and pay stubs.

### 7.2.3 FEDERAL INCOME TAX RETURNS

For some types of income, federal income tax returns (personal and/or business) are required. [See 8.4.24 Self-Employed Income](#) for detailed requirements.

### 7.2.4 WRITTEN VERIFICATION OF EMPLOYMENT (WVOE)

Income and employment for wage-earners or salaried borrowers may be obtained via direct written verification from the borrower's employer (FNMA Form 1005). The verification should be signed by a member of the company's human resource department or one of the business owners or officers. At a minimum, the verification must include the borrower's name, position, dates of employment, and base salary. Oaktree does not offer a WVOE Only program.

### 7.2.5 VERBAL VERIFICATION OF EMPLOYMENT (VVOE)

Verbal Verifications of Employment must be obtained for each borrower using employment income to qualify. VVOEs must meet all the following criteria:

- Completed within 5 calendar days of closing.
- Confirm that the borrower is employed at time of verification.
- Include the name and phone number of people processing the VVOE.
- Include the name, position and phone number of the person providing the verification (employer)
- Telephone number for the borrower's employer must be verified independently via any of the following: telephone book, the internet, directory assistance, or by contacting the applicable licensing bureau.

For self-employed borrowers, the existence of the business must be independently verified through a disinterested third party within 30 calendar days of closing. The loan file should reflect the documentation secured from these sources. Sources may include:

- CPA, regulatory agency, or applicable licensing bureau; or
- Verification of a phone and address listing using the Internet.

### 7.3 ASSET DOCUMENTATION

Assets to be used for down payment, closing costs, debt payoff, and reserves must be seasoned for 60 days or sourced.

Assets must be verified with one of the following:

- Most recent 2 months' account statements, or most recent quarterly account statement, indicating opening and closing balances, and reflecting a consecutive 60 days of asset verification.
  - Supporting documentation should be obtained for single, unexplained deposits that exceed 50% of the borrower's gross monthly qualifying income for the loan.
  - Documentation of large deposits is not required on refinance transactions.
- Account statements must provide all the following information:
  - Borrower as the account holder
  - Account number
  - Statement date and time period covered.
  - Current balance in US dollars

#### DSCR Program Note:

Verification of assets is required for purchase or refinance transactions to evidence sufficient funds to close. Assets must be verified with most recent 2 months' account statements or quarterly account statements.

Sourcing of deposits is not required; however, verification of large or unusual deposits may be required at the discretion of Oaktree Funding.



# 8 EMPLOYMENT/INCOME ANALYSIS

## 8.1 FULL DOCUMENTATION

### 8.1.1 WAGE-EARNERS

Income derived from a consistent hourly, weekly, or monthly wage, must be verified by all the following:

- W-2s for the most recent 2 years; and
- Pay stub(s) covering the most recent 30-day period providing year-to-date earnings; and
- Signed and executed 4506-T; and
- Verbal Verification of Employment (VVOE) completed within 10 days of closing.
- For industries related to the residential housing market (Mortgage, Real Estate, Construction, Appraisers, Title/Escrow, etc...:
  - Max DTI 43% w/3 additional months reserves or 50% allowed with an additional 6 months reserves

### 8.1.2 SELF-EMPLOYED BORROWERS

See [8.4.24 Self-Employed Income](#) for detailed documentation requirements.

#### 8.1.2.1 SINGLE YEAR W2/TAX RETURN (EXPRESS DOC)

1-Year Income Documentation is available under the Non-Agency Advantage, Investor Advantage, and Titanium Advantage Programs. In lieu of the standard 2-year documentation requirement for wage-earners and self-employed borrowers, the following single year documentation will be accepted. Supplemental income is not eligible for 1-Year Income Documentation (i.e., dividend/interest income, capital gains, alimony, child support, pension, or retirement). Rental income may be used if declared on the most recent tax returns. All other requirements for Full Documentation apply.

- For industries related to the residential housing market (Mortgage, Real Estate, Construction, Appraisers, Title/Escrow, etc...:
  - Max DTI 43% w/3 additional months reserves or 50% allowed with an additional 6 months reserves



See the following sections for complete documentation requirements:

### 8.1.2.2 SELF EMPLOYED

Most recent year of tax returns, personal and business, if applicable (including all schedules), signed and dated by each borrower. In addition, the following is required:

A YTD P&L signed by the preparer. ( A gap year P&L is required if a calendar year gap exists between the most recent filed tax return and the start of the YTD P&L. Qualifying income is determined from the tax returns unless the P&l reflects declining income. Otherwise, the P&L is primarily used to determine whether income is stable and consistent. , The P&L may be prepared by the borrower or a 3<sup>rd</sup> party.

- For industries related to the residential housing market (Mortgage, Real Estate, Construction, Appraisers, Title/Escrow, etc...:
  - Max DTI 43% w/3 additional months reserves or 50% allowed with an additional 6 months reserves

### 8.1.2.3 WAGE EARNER or SALARIED BORROWERS

• Most recent year W2, and the borrower’s recent paystub(s) (reflecting 30 days of pay and YTD earnings). The most recent year tax returns may be required for applicable income sources (i.e., rental income). A verbal VOE from each employer within 10-days of the note date is required. A completed, signed, and dated IRS Form 4506-T is required for each borrower. The form should be executed and the W-2 transcript for the most recent year included in the credit file (W-2 transcripts are not required if 1040 transcripts are included in file). Any discrepancies between the two documents should be explained. Additional documentation may be required to satisfactorily address potential discrepancies. If tax returns are present in the credit file, 1040 transcripts will be required.

- For industries related to the residential housing market (Mortgage, Real Estate, Construction, Appraisers, Title/Escrow, etc...:
  - Max DTI 43% w/3 additional months reserves or 50% allowed with an additional 6 months reserves

## 8.2 BANK STATEMENT (ALTERNATIVE DOCUMENTATION)

Under the Non-Agency, Titanium, or Investor Advantage Program, Self-employed borrowers are eligible for 12- or 24-Month's Personal Bank Statement Documentation or Business Bank Statement Documentation as specified on the applicable matrix. A Borrower who submits tax returns will not be eligible for Bank Statement Documentation. See the credit matrix for Max allowable LTVs based on Doc type, along with the rate sheet for pricing or rate differences. The following restrictions apply:

- Borrowers must be self-employed in the same business for at least 2 years.
- For industries related to the residential housing market (Mortgage, Real Estate, Construction, Appraisers, Title/Escrow, etc...:
  - Max DTI 43% w/3 additional months reserves or 50% allowed with an additional 6 months reserves
- Maximum DTI is 50% for all bank statement programs. Foreign Nationals are ineligible. Non-Permanent Resident Aliens with a supporting E-1 or E-2 VISA may be eligible
- All parties listed on each bank account must be included as borrowers on the loan.
- Statements must be consecutive, and the most recent statement must be dated within 60 days of closing. Statements should support stable and generally consistent deposits. Unusual deposits or inconsistent deposit history must be explained and documented.
- Evidence of a decline in earnings may result in disqualification.
- Up to 25 NSF checks and overdraft protection transfers in the most recent 12-month period are allowed with explanation from the borrower.
- Additional income deposited into the bank statements but derived from a source other than the self-employed business may not be included in the bank statement average. W-2 earnings must be documented as per the requirements in [8.1.1 Wage-Earners](#) along with an executed 4506-T to verify the W-2 earnings only.
- If bank statements provided reflect payments being made on obligations not listed on the credit report, see [6.15 Undisclosed Debts](#) for additional guidance.
- Borrowers using rental income as their *primary* source of income must utilize Business Bank Statements to qualify.

- Borrowers who receive rental income as a *secondary* income source may utilize Business or Personal Bank Statement Documentation:

- Oaktree will require a rental lease for all properties generating rental income as well as 6 consecutive months proof of receipt of rental deposits into a personal or business account. Final income for each property will be calculated at 75% of the lease amount after sourcing 6 months of deposits.
- If the rental income is being deposited into the same income producing account being used to calculate self-employment income, then Oaktree will remove all rental deposits from our bank statement calculations to ensure that rental and self-employment income are not comingled.
- Oaktree will allow short term rental income on bank statement transactions. All deposits for each property will be sourced and averaged over a 6-month period. Oaktree will also establish market rent from online sources. 75% of the market rent will be used as income if the 6-month deposit average is equal to or greater than the full market rent. If the market rent cannot be established online a 1007 will be required.

Rental Income derived from an ADU on the subject property will be allowed if the following terms are met:

- ADU must meet minimum property size of 600 sq ft
- Rental lease is required along with proof of receipt of the most recent 6 months proof of receipt of income
- Appraiser must provide at least one comp with an ADU

\*\* ADU income is not allowed on a primary residence or 2<sup>nd</sup> home

\*\* Rental income can be used for no more than One ADU

### 8.2.1 PERSONAL BANK STATEMENTS

Personal Bank Statement Documentation are allowed under all programs. See the applicable Oaktree Funding Product Matrix for credit score and LTV restrictions.

All Loan Programs allow for either 12 or 24 months of bank statements.

The following documentation is required:

- 12, or 24 months complete personal bank statements from the same account (transaction history printouts are not acceptable). *LOE on the nature of the borrower's self-employment may be required* Declining income will require a LOE.
- Minimum 25% business ownership is required.
- No more than 3 separate bank accounts may be used (combination of business and personal is prohibited *unless income is being used from multiple businesses and each account represents income from a separate business*).
- For Personal Bank statements, all deposits greater than 50% of the monthly deposit average will require a source and explanation.
- Initial signed 1003 with monthly income disclosed.
- Verification of business existence required within 10 calendar days of closing.

Income Calculation: Income calculated using personal bank statements must be reviewed alongside income stated by the borrower on the initial signed loan application.

- Final income will be the lower of the income represented on the initial 1003 (within a 15% variance from the income listed on the 1003) or the income calculated by averaging qualified deposits.. On all bank statement loans, we will now use the lower of the 12- month average or the last 6 month's average to determine monthly bank statement income. There may be further reductions in income up to loan disqualification if there is a decline of 20% or more in the last 6 months.

#### 8.2.1.1 PERSONAL BANK STATEMENT AVERAGE

The following requirements apply when calculating qualifying income using personal bank statements:

- 100% of deposits used for income and averaged over 12, or 24 months.
- Transfers between personal accounts should be excluded.
- Transfers from a business account into a personal account are acceptable. 3 months of recent business bank statements will be required to establish a history of transfers.

### 8.2.1.2 1003 INITIAL DISCLOSED INCOME

Income disclosed on the initial signed application should be reviewed. Income used to qualify must not exceed 15% of the income listed on the signed 1003.

### 8.2.2 BUSINESS BANK STATEMENTS

Business Bank Statement Documentation is allowed under all programs. See the applicable Oaktree Funding Program Matrix for credit score and LTV restrictions. All Non-Agency Advantage and Investor Advantage Loan Programs allow for either 12 or 24 months of bank statements.

The following requirements apply for all business bank statement transactions:

- A minimum of 25% ownership in the business is required; however, borrowers with less than 50% ownership that are not a managing member are ineligible for business bank statement qualification.
- On all bank statement loans, we will use the lower of the 12- month average or the last 6 month's average to determine monthly bank statement income. There may be further reductions to income up to loan disqualification of there is a decline of 20% or more in the last 6 months.
- Business narrative required outlining business cash-flows & expenses associated with the business industry type. (See Oaktree Business Narrative form [www.oaktreewholesale.com/forms](http://www.oaktreewholesale.com/forms)). Oaktree will review and validate expenses based on business narrative provided.
- Declining income will require a LOE.
- Wire transfers and transfers from other accounts must be documented or excluded from the calculation.
- Statements should show a trend of ending balances that are stable or increasing over time. Decreasing or negative ending balances must be explained.

Business expenses must be reasonable for the type of business. Income Calculation:

One of the following options for income calculation below must be used.

Option 1: Percentage of gross deposits as calculated using expense ratio factor based on business type.

- UW to review Business Narrative and online sources to make final determination on whether the business is Service, or Product based.

	# Of FTE/Contractors		
	0	1-5	>5
<u>Service Business (Offers Service/No inventory/Low Expense)</u> Examples: Consulting, Accounting, Legal, Therapy, Counseling, Financial Planning, Insurance, Information Technology	15% Expense Factor	30% Expense Factor	50% Expense Factor
<u>Product Business (Sells a Product/Inventory or Retail Presence/High Expense)</u> Examples: Retail, Food Services/ Restaurant, Manufacturing, Contracting/ Construction	25% Expense Factor	50% Expense Factor	75% Expense Factor

Example: \$50,000 monthly average deposits multiplied by 60% expense ratio = \$30K expenses. \$50,000 monthly deposit average - \$30,000 expenses = \$20,000 monthly income.

Option 2: Qualifying income is the P&L Net Income average from a validated third-party prepared P&L. Only licensed Tax Preparers, CPA's or Tax Attorneys qualify as eligible 3<sup>rd</sup> parties. The total deposits calculated with 12, or 24 months of business bank statements is used solely to validate the third-party prepared P&L. Borrower prepared P&L will not be permitted under any circumstances.

The following documentation is required:

- 12, or 24-months complete business bank statements from the same account (transaction history printouts are not acceptable). No more than 3 different business accounts may be used.

- Personal bank accounts addressed to a DBA, or personal accounts with evidence of business expenses must be treated as business accounts for qualification.
- P&L statement (prepared by eligible 3<sup>rd</sup> party) covering the same time period as the bank statements provided.
- P&L must be signed by the 3<sup>rd</sup> Party Preparer.
- Eligible 3<sup>rd</sup> party preparer must review the business financial statements or working papers provided by the borrower.
- The eligible 3<sup>rd</sup> party may not be related to the borrower or associated with the borrower's business.
- The Gross revenue listed on the P&L Must be within 10% +/- of the total qualified deposits.
- Oaktree will use the lower of the Net Income on the P&L and the income disclosed on the initial 1003 for the borrower's business. A 15% increase is allowed above the disclosed initial 1003 business income. Verification of business existence required within 10 calendar days of closing.

Option 3: Qualifying income is derived from the calculation of a Third- Party Prepared Expense Statement. The expense statement must be prepared and signed by an eligible third-party (CPA, licensed Tax Preparer, Tax Attorney) specifying business expenses as a percentage of the gross annual sales/revenue prepared.

The following documentation is required:

- The eligible 3<sup>rd</sup> Party Preparer must attest that they have filed the most recent 2 years business tax returns, are not related to the borrower, and are not associated with the borrower's business.
- The eligible 3<sup>rd</sup> Party Preparer must confirm the borrower's ownership percentage

Net income from the Expense Statement is calculated by determining the total deposits per bank statements (minus any unallowed deposits) averaged over 12 or 24 months and then multiplied by the expense percentage provided by the eligible 3<sup>rd</sup> party. That number is then subtracted from the total monthly average deposit amount.

Net Income = Total Deposits \* (1 - Expense Statement Percentage) / 12 or 24 months

### 8.2.2.3 1003 INITIAL DISCLOSED INCOME

Income disclosed on the initial signed application should be reviewed. Income used to qualify must not exceed 15% of the income listed on the signed 1003.

## 8.3 OTHER DOCUMENT TYPES

### 8.3.1 CPA PREPARED PROFIT AND LOSS ONLY (Tax Preparer/Tax Attorney not allowed)

- Borrowers must be Self-Employed for at least 2 years with the same business with at least 50% ownership as documented by CPA letter or operating agreement/equivalent.
  - 2 years existence can be validated by CPA letter, Business License, or Secretary of State Filing
  - An internet search must be conducted and included with the credit package to support existence of the business.
  - All employment verification documentation from all sources must be consistent with information on the loan application and within the borrowers' credit report.
- Most recent 12-month Profit and Loss Statement prepared by an independent CPA.
  - CPA preparing the P&L must have filed the borrowers most recent business tax returns (Self-employed borrowers who file their own tax returns are ineligible).
- The CPA must attest to the following:
  - That they prepared the most recent year tax returns for the borrower and that they reviewed the business financial statements and certify that the P&L represents an accurate summary of the business cash flow and applicable cash expenses.
  - They are not related to the borrower or associated with the borrower's business.
- CPA prepared P&L and CPA letter must be signed and dated within 60 days of closing (digital or electronic signatures are not allowed).
- CPA License must be independently verified.
- For industries related to the residential housing market (Mortgage, Real Estate, Construction, Appraisers, Title/Escrow, etc...):
  - Max DTI 43% w/3 additional months reserves or 50% allowed with an additional 6 months reserves



2 Months of Business Bank Statements must be used to validate the top line gross revenue from the CPA prepared P&L. This is done by averaging the qualified deposits over the 2 months bank statements provided and then multiplying the average by 12 months. This equals the 12-month calculated total. Oaktree will then compare the 12-month calculated total to the gross revenue from the CPA prepared P&L. A +/-10% variance is allowed between the CPA gross income and the 12-month calculated total. The Net income on the P&L is used as the Oaktree final income. Income cannot be calculated higher than the income declared on the Initial 1003.

### 8.3.1 1099 ONLY (ALTERNATIVE DOCUMENTATION OPTION)

- Borrowers' who have a 2-year history of receiving 1099 income or have converted recently from W2 to 1099 and have at least 1 year of receiving 1099 in the same line of work may utilize this program.
- Borrower must provide the following:
  - 1099's for the last two years. If the borrower recently moved from wage to 1099 income in the same line of work, then the most recent year 1099 will be allowed if it covers a full 12 months of self-employment income. 1099 income paid to a business owned by the borrower is ineligible.
  - Verification of Employment from current contract employer covering the most recent 2 years plus Year-to-Date earnings is required. The 1099 employer must notate in the VOE the likelihood of continued 1099 employment and whether the contractor is required to pay for any business-related expenses (non-reimbursed).
    - Oaktree will use the greater of the expense listed on the WVOE and a 15% expense factor.
  - Most recent 2 months' proof of receipt of income is required in the form of paystubs, cancelled checks or bank statements. Proof of receipt must reflect income paid to the borrower directly, and not a business.
- For industries related to the residential housing market (Mortgage, Real Estate, Construction, Appraisers, Title/Escrow, etc...):
  - Max DTI 43% w/3 additional months reserves or 50% allowed with an additional 6 months reserves

An exception may be allowed for borrowers who recently converted from wage income to 1099 income with the same employer if the borrower can prove a two-year continuous employment history with the same employer. Oaktree must

confirm that the job duties for the borrower have not changed in any way. In these instances, Oaktree will need at least 2 months proof of income

## **8.4 EMPLOYMENT HISTORY**

Employment must be stable with at least a 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 2 or more years.

### **8.4.1 FREQUENT JOB CHANGES**

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 be carefully reviewed to ensure consistent or increasing income levels and the likelihood of continued stable employment.

### **8.4.2 GAPS IN EMPLOYMENT**

Borrowers should provide a signed, written explanation for any employment gaps that exceed 60 days in the most recent 2 years.

Recent graduates and borrowers re-entering the workforce after an extended period are allowed. Borrowers should be back working for at least 6 months after an extended job gap equal to or greater than 1 year. Recent graduates must be working in a field related to their area of study. Proof of diploma (or equivalent) may be required.

## **8.5 SOURCES OF INCOME**

For all income sources, borrowers are qualified based on calculated stable monthly income over the most recent 2-year period. Income may be obtained from a variety of sources such as salary, bonus, commission, self-employment, etc., and should be reasonably expected to continue for the next 3 years.

See [8.1 Full Documentation](#) for detailed income documentation requirements.

### **8.5.1 ANNUITY INCOME**

Annuity income can be used for qualification when the following requirements are met:

- 12-month history must be verified using 1099s, tax returns, and/or bank statements.

- Letter from issuer of annuity to be obtained stating that it has been set up on periodic withdrawal, amount of withdrawal, duration, and balance.
- Account asset balance must support the continuance of the monthly payments for at least 3 years after the close of escrow.

Annuities less than 12 months old must be in a non-revocable trust with a minimum term of 40 months to use the income to qualify.

For annuity distributions from a 401(k) or pension, see [8.4.20 Pension/Retirement](#).

### 8.5.2 ASSET DEPLETION

Asset Depletion may be used to determine qualifying income both alone and in conjunction with other income documentation options. Only 49.9% of the total income may be derived from Asset depletion calculations when other income documentation options are used as well. Assets used to calculate asset depletion income cannot be used for self-employment bank statement calculations.

Asset Depletion is considered Alt-Doc from a credit and pricing standpoint. See the applicable Oaktree Funding Matrix for credit score and LTV restrictions. Asset Depletion may not be used on cash-out or debt consolidation transactions over 65% LTV. Asset depletion may not be used with foreign national borrowers. Asset Depletion will only be permitted on Primary residences. Gift funds will not be permitted.

Qualified Assets can be comprised of stocks, bonds, mutual funds, vested amount of retirement accounts and bank accounts. If a portion of the Qualified Assets is being used for down payment, closing costs, or reserves, those amounts must be excluded from the balance before analyzing a portfolio for income determination. Six-month seasoning of all assets is required.

Loans qualifying with Asset Depletion must have a 700 minimum FICO score and 75% max LTV (65% for cash-out

The following assets are considered Qualified Assets and can be utilized to calculate income:

- 100% of checking, savings, and money market accounts
- 80% of the remaining value of stocks & bonds
- 70% of retirement assets
- Personal funds in the borrowers name only (business funds and joint accounts with individuals not on the loan are not eligible).

### 8.5.2.1 CALCULATING QUALIFYING INCOME

To calculate qualifying income using Asset Depletion, utilize the below calculation.

#### **DEBT RATIO CALCULATION**

Borrowers must have the lesser of (a) 1.5 times the loan balance or (b) \$1mm in Qualified Assets, both of which must be net of down payment, closing costs, and required reserves to qualify. Borrower may not have less than \$450k in liquid assets. See the Non-Agency Advantage matrix for more information.

The income calculation is as follows:

$$\text{Monthly Income} = \text{Net Qualified Assets} / 60 \text{ Months}$$

\*\* Net Qualified Assets = Assets X required “Qualified Asset Percentage” minus the required down payment, closing costs, and reserves.

### 8.5.3 AUTOMOBILE ALLOWANCE

Automobile allowances can be used to qualify the borrower, subject to additional requirements. Allowances may not be used to offset a car payment, and automobile payments must be included in the debt-to-income ratio calculation.

Payments must have been received a minimum of 2 years, and the allowance must be documented on the borrower’s pay stub. Qualifying income is the allowance received from the employer minus the expenses the borrower has deducted on IRS Form 2106. If the allowance is less than the expenses, the loss must be deducted from qualifying income.

### 8.5.4 BONUS AND OVERTIME

Bonus and overtime can be used to qualify if the borrower has received the income for the past 2 years and it is likely to continue. The client should use an average of bonus or overtime income. Bonus and overtime income received for 12 to 24 months may be considered, if there are positive factors that reasonably offset the shorter income history.

A written Verification of Employment (FNMA Form 1005) should be obtained to provide a breakdown of bonus or overtime earnings for the most recent 2 years. If the employment verification states the income is unlikely to continue, it may not be used in qualifying.

### 8.5.5 CAPITAL GAINS

When income from capital gains is used to qualify the borrower, tax returns for the most recent 2 years are required to determine if the income is recurring and may be considered in qualifying. If a capital gain appears to be a one-time occurrence, it should not be considered when calculating income available.

For the income to be considered stable and likely to continue, the client must document sufficient assets to show the borrower will continue receiving the capital gains for a minimum of 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.

In addition, 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.

### 8.5.6 CHILD SUPPORT, ALIMONY OR MAINTENANCE INCOME

For child support, alimony, or separate maintenance to be considered stable income, it must continue for at least 3 years from note date as specified by the court order. The following requirements apply:

- A copy of the divorce decree or legal separation agreement must be obtained.
- Documentation must be received to evidence receipt of the most recent 6 months of payments through copies of deposit slips, canceled checks, and/or bank statements.

Full and timely payments must have been received for 6 months or longer. Income received for less than 6 months is considered unstable and may not be used to qualify the borrower. Also, if full or partial payments are made on an inconsistent or sporadic basis, the income is not acceptable for qualifying the borrower.

Note: Oaktree Funding expects lenders originating loans for sale to Oaktree to make appropriate disclosures, as required under the federal Equal Credit Opportunity Act, that child support, alimony, or maintenance income information need not be provided unless the borrower wants the lender to consider such income in underwriting the loan.

### 8.5.7 COMMISSION INCOME

A commissioned borrower is one who receives more than 25% of his or her annual income from commissions. Commission earnings should be averaged over the most recent 2 years and require the following documentation:

- WVOE covering the last two years plus YTD. All income types must be broken out separately including the commission income. Year-end pay stubs can be used in lieu of the WVOE if they provide a YTD breakdown of all income types.
- Most recent year-to-date pay stub reflecting the commission earnings.

A borrower on his current job for less than 2 years with a minimum 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 signed, 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 decline in earnings from one year to the next.

With borrowers that receive a draw against the commission earnings, the draw income is not to be considered 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.

### 8.5.8 DECLINING INCOME

Declining income sources should be closely reviewed to determine if the income may be used for qualifying purposes. Income showing a consistent decline over the prior years should not be considered as stable or usable income for qualification purposes.

A signed, written explanation for the decline should be obtained from the borrower and/or employer. In instances where there is sufficient information to support the use of the income, the most recent lower income over the prior 2-year period must be used and may not be averaged.

### 8.5.9 DISABILITY INCOME

Long-term and short-term disability income can be used for qualification. The following documentation should be obtained for both long-term and short-term disability:

- Documentation from either the insurance company or employer providing the payment amount, conditions for termination of payment, and the likelihood of it continuing for at least 3 years.
- Copy of most recent check or bank statement is required if the award letter does not reflect the current payment being received.

Short-term disability also requires the following documentation:

- Signed letter from borrower stating intent to return to work once the disability no longer exists.
- Verification from employer stating that the borrower will be allowed to return to work once the disability no longer exists. The letter must identify the borrower's position and rate of pay upon return. If the future employment income will be less than the disability income, the lower income amount must be used to qualify for the loan.

In documenting disability income, clients originating loans for Oaktree Funding must not make inappropriate and/or unlawful inquiries regarding the nature or severity of the borrower's disability.

#### 8.5.10 DIVIDEND/INTEREST INCOME

Dividend and interest income derived from investments can be used as qualifying income when the following requirements are met:

- 2 most recent years federal income tax returns received supporting a 2-year history of receipt; and
- Verification of stock asset values no older than 30 days at closing.

Sufficient assets should remain after closing to continue to generate an acceptable level of earnings. If assets that generated dividend/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.

#### 8.5.11 EMPLOYMENT BY A RELATIVE

Income for borrowers who are employed by a relative must be verified with all the following:

- Federal income tax returns for the most recent 2 years.
- W-2s for the most recent 2 years; and
- Pay stub(s) covering the most recent 30-day period.

Income should be averaged over the 2-year period. Clarification of potential ownership by the borrowers of family-owned businesses may also be required. A borrower may be an officer of a family operated business but not an owner. Verification of their status should be provided by written confirmation obtained from a CPA or legal counsel.

### 8.5.12 FOREIGN INCOME

Foreign income is income earned by a borrower who is employed by a foreign corporation or a foreign government and is paid in foreign currency. Borrowers may use foreign income to qualify if the following requirements are met:

- Standard income stability and continuance requirements are met (i.e., two most recent pay stub and last two-year W2 equivalents)
- All foreign documentation must be translated into English by a certified translator. Evidence of certification required.
- Two years U.S. federal income tax returns reflecting the foreign income.
- Standard documentation requirements apply based on the type of income.
- Income from sanctioned countries administered by OFAC is not allowed.
- Income is converted to U.S. dollars.

### 8.5.13 FOSTER CARE INCOME

Income derived from foster care payments may be considered if there is a 2-year history of receipt and it is expected to continue for the next 3 years.

The income can be verified by letters from the organizations and copies of borrower's deposit slips or bank statements showing regular deposit of the payments, or by providing federal income tax returns for the most recent 2 years. The documentation received must clearly show the number of foster children involved, their ages, and length of care.

Income must be averaged over the 2-year period and may not be considered for children who will reach the age of 19 within 3 years.

### 8.5.14 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.

### 8.5.15 LUMP-SUM DISTRIBUTIONS

Proceeds from the sale of investments held in a 401(k) or IRA account are not eligible as an income source. See [8.5.10 Dividend/Interest Income](#) for related allowable income sources.



### 8.5.16 MINISTER/CLERGY INCOME

Ministers are individuals duly ordained, commissioned or licensed by a church or church denomination. Ministers and members of the clergy are generally considered self-employed unless exempted by IRS from self-employment taxes. If exempt, an exception from the IRS must be provided.

Rental or housing allowance received can be considered income for qualifying the borrower. Written documentation, such as a WVOE provided by the church, must be obtained showing receipt of the income. The borrower's pay stub should also reflect receipt of the housing allowance. If the borrower is newly employed, obtain a copy of the church budget (in lieu of a check) showing funds have been allocated for housing allowance. Housing allowance for ministers is non-taxable income and can be grossed up for qualifying.

The church may budget for educational, medical insurance, life insurance, retirement, etc. to be paid on behalf of borrower; however, these items will not be considered as qualifying income, unless exempted by the IRS. The housing allowance, although not subject to federal income taxes, is subject to self-employment taxes. Gross income on Schedule SE of the borrower's 1040 should include housing allowance paid.

### 8.5.17 NON-TAXABLE INCOME

Non-taxable income can be grossed up by 25%. Examples 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 income tax returns may be required to accurately determine the non-taxable portion.

Income may not be grossed-up for calculating [Residual Income](#).

### 8.5.18 NOTES RECEIVABLE INCOME

Income from notes receivables can be used to qualify provided the income is regular and recurring. The borrower should have a documented history of receiving the income for at least 2 years and can verify that the income will continue for at least 3 years from note on the new mortgage.

A copy of the note confirming the amount, frequency and duration of payments is required along with tax returns for the most recent 2-year period (including Schedule B) and bank statements showing consistent deposits of funds. Income from a recently executed note/contract (less than 12 months) may not be used as qualifying income.

Evidence of receipt for the last 12 months must be verified with either canceled checks, bank deposit slips, of federal income tax returns. A copy of the note verifying payment amount and remaining term of at least 3 years must also be obtained.

### **8.5.19 PART-TIME/SECOND JOB INCOME**

Income from part-time employment or a second job can be considered stable income if it has been received for the previous 2 years and is likely to continue. Earnings must be documented with current pay stubs and W-2s for the most recent 2-year period.

### **8.5.20 PENSION/RETIREMENT**

Pension and retirement income must be verified with any of the following:

- Letters from the organization providing the income.
- Copy of retirement award letters.
- Tax returns for the most recent 2 years
- W-2 forms or 1099 forms for the most recent 2 years

#### **Bank statements reflecting regular deposits for the most recent 2 months. 8.5.20.1 PROOF OF CONTINUANCE**

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. Borrower must be of retirement age (62 ½) to utilize any form of asset driven distribution income from a retirement account.

If retirement income is in the form of monthly annuity distributions, such as 401(k) or IRA, proof of continuance for 3 years is required. If the borrower intends to use the retirement account to also satisfy asset requirements, the value of the asset must be reduced by the funds being withdrawn prior to determining a 3-year continuance of income. Assets available beyond the deduction for continuance of income may be used as reserves. See also [10.3.13 Retirement Accounts](#).

### 8.5.20.2 FORTHCOMING RETIREMENT

Any borrower presently employed but anticipating retirement within 3 years from note date must be evaluated upon the verified anticipated retirement income. Effective income for borrowers planning to retire (or end employment for other reasons) during the 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. A combination of present earnings and future retirement income does not represent a supportable level of earnings.

### 8.5.21 PUBLIC ASSISTANCE

Income from government assistance programs, such as food stamps, Aid to Dependent Children, or welfare, can be used as qualifying income provided such income has a reasonable likelihood of continuing for at least 3 years.

The applicant must provide a copy of a benefits awards letter as evidence of eligibility. This documentation must verify the amount of assistance, duration of payment and what portion if any is non-taxable. Verification of receipt of benefits for the previous 2 years can be documented with copies of checks, copies of bank statements, copies of award letter or copies of grant statements.

In documenting and evaluating public assistance income, Oaktree expects clients originating loans for Oaktree to comply fully with the requirements of the federal Equal Credit Opportunity Act and applicable state anti-discrimination laws.

### 8.5.22 RENTAL INCOME

Rental income can be used for qualifying. The following requirements apply:

- Rental income must be disclosed on the loan application.
- Rental income from a 1-unit primary residence or second homes may not be used.
- The following forms are required if rent from the subject property is used:
  - Single Family Comparable Rent Schedule (FNMA Form 1007)
  - 1-4 Family Rider Assignment of Rents for all investment properties (FNMA Form 3170)

Note: If rental income from the subject property is not being used to qualify, the gross monthly rent must still be documented with appraisal form 1007.

Rental Income derived from an ADU on the subject property will be allowed if the following items are met:

- ADU must meet minimum property size of 600 sq ft
- ADU income must be reported on the most recent filed tax returns

- Appraiser must provide at least one comp with an ADU

\*\* ADU income is not allowed on a primary residence or 2<sup>nd</sup> home

### \*\* Rental income can be used for no more than One ADU 8.5.22.1 INCOME OR LOSS

The treatment of the monthly qualifying rental income or loss in the total debt-to-income ratio (as calculated in [8.5.22.2](#) and [8.5.22.3](#)) varies based on occupancy of the property.

If the property is a primary residence, the following applies:

- The monthly qualifying rental income must be added to the borrower's total monthly income (income is not netted against the PITIA); and
- The full PITIA must be included in the borrower's total monthly obligations when calculating the DTI.

If the rental income or loss relates to a property other than the borrower's primary residence, the following calculations apply:

- If the monthly qualifying rental income minus the full PITIA is positive, it must be added to the borrower's total monthly income.
- If the monthly qualifying rental income minus PITIA is negative, the monthly net rental loss must be added to the borrower's total monthly obligations.
- The full PITIA for the rental property is factored into the amount of the net rental income or loss; therefore, it should not be counted as a monthly obligation.

### 8.5.22.2 CALCULATING RENTAL INCOME FROM THE SUBJECT PROPERTY

Rental income from the subject property owned prior to loan application should be calculated using the borrower's federal income tax returns for the most recent 2-year period ([Cash Flow Analysis of Schedule E](#)). Income should be averaged. Net rental losses should be included in ratios as a liability.

For properties acquired within the current calendar year, rental income should be calculated using the lesser of:

- 75% of the current lease minus the full PITIA; or

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

- 75% of the current lease minus the full PITIA (evidence of deposit must be obtained); or

- 75% of the appraiser’s opinion of rent on appraisal form 1007/216 minus the full PITIA

If no lease exists and rental income is calculated using only the appraiser’s opinion of rent, an additional 3 months PITIA reserves is required.

### 8.5.22.3 RENTAL INCOME FROM OTHER REAL ESTATE OWNED

Rental income from another property owned prior to loan application should be calculated using the borrower’s federal income tax returns for the most recent 2-year period ([Cash Flow Analysis of Schedule E](#)). Income should be averaged. Net rental losses should be included in ratios as a liability.

For properties owned for less than 2 years, rental income should be calculated using the lesser of:

- 75% of the current lease minus the full PITIA; or
- Cash flow analysis of the Schedule E from the most recent year’s federal income tax return (if applicable)

### 8.5.22.4 CASH FLOW ANALYSIS OF SCHEDULE E

Cash Flow Analysis of Schedule E should be completed as follows:

Gross Rents and Royalties Received

- Total Expenses

+ Depreciation

+ Insurance

+ Mortgage Interest

+ Taxes

+ HOA fees (if included on Schedule E)

Subtotal

Subtotal / 12 = Monthly Total

Monthly Total

- Proposed or Existing Monthly PITIA

MONTHLY NET RENTAL INCOME/LOSS

### 8.5.23 SEASONAL INCOME

Income from seasonal employment can be considered if the applicant has worked the same job during the season for the past 2 years and expects to be rehired for the next season.

A written Verification of Employment (WVOE) and W-2s for the most recent 2 years are required. The WVOE must reference the likelihood of the borrowers rehire. Seasonal income should be averaged over a 2-year period.

### 8.5.24 SELF-EMPLOYED INCOME

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.

#### 8.5.24.1 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 reported on the owner's schedule C of the individual federal income tax return.

Documents required for determining income from a sole proprietorship are:

- Federal income tax returns (IRS Form 1040) for the most recent 2 years, including all schedules; and
- Year-to-date profit and loss statement (if the loan application is > 120 days after the year-end reflected on the most recent business tax returns provided); and
- Signed and executed IRS form 4506-T; and
- Verification of the existence of the business within 10 calendar days of closing.

#### 8.5.24.2 Partnerships

A partnership is a business organization in which 2 or more individuals manage and operate the business. The partners share profits and losses and control of the business.

Documents required for determining partnership income are:

- Federal income tax returns (IRS Form 1040) for the most recent 2 years, including all schedules; and
- W-2s for the most recent 2 years (if applicable); and

- Partnership tax returns (IRS Form 1065) for the most recent 2 years, including all schedules and K-1s (Note: if borrower is a limited partner with less than 50% ownership, partnership tax returns are not required); and
- Year-to-date profit and loss statement (if the loan application is > 120 days after the year-end reflected on the most recent business tax returns provided); and
- Signed and executed IRS form 4506-T; and
- Verification of the existence of the business within 10 calendar days of closing.

### 8.5.24.3 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 self-employed. A borrower that is self-employed as a corporate officer will receive a pay stub, W-2 and dividends 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). Corporation net income earnings may not be used unless the borrower owns 100% of the business. Exceptions may be granted when two married borrowers own 100% between the two of them.

Documents required for determining income from a corporation:

- Federal income tax returns (IRS Form 1040) for the most recent 2 years, including all schedules; and
- W-2s for the most recent 2 years; and
- Corporate tax returns (IRS Form 1120) for the most recent 2 years, including all schedules; and
- Year-to-date profit and loss statement (if the loan application is > 120 days after the year-end reflected on the most recent business tax returns provided); and
- Signed and executed IRS form 4506-T; and
- Verification of the existence of the business within 10 calendar days of closing.

### 8.5.24.4 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.

Documents required for determining income from an S-corporation:

- Federal income tax returns (IRS Form 1040) for the most recent 2 years, including all schedules; and
- W-2s for the most recent 2 years; and
- Corporate tax returns (IRS Form 1120-S) for the most recent 2 years, including all schedules and K-1s; and
- Year-to-date profit and loss statement if the loan application is dated more than 120 days after the end of the business's tax year; and
- Signed and executed IRS form 4506-T; and
- Verification of the existence of the business within 10 calendar days of closing.

#### **8.5.24.5 K-1 Distributions**

If the schedule K-1 reflects a documented, stable 2-year history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, then no further documentation of access to the income or adequate business liquidity is required. The schedule K-1 cash distribution income may then be included in the borrower's income. Proof of receipt of cash distribution income is required. If the schedule k-1 does not reflect a documented, 2-year stable history of receiving cash distributions then the underwriter must confirm the business has adequate liquidity to support the withdrawal of earnings. Oaktree will use the following liquidity test: Total Assets minus inventory divided by total liabilities. That number must be 1 or greater to use the income distribution.

#### **8.5.24.6 1099 Miscellaneous Income (Full Documentation Requirements)**

Payments to sole proprietors or contract individuals will also be reported on IRS Form 1099 form and included in the borrower's Schedule C. If a borrower receives 1099 income, federal income tax returns for the most recent 2 years (IRS Form 1040) are required to determine the income and related expenses.



#### 8.5.24.7 Reduced Documentation for a Secondary Business

Business tax returns, associated schedules, and profit and loss statements may be waived when all the following requirements are met:

- Income/loss referenced on personal tax returns is generated from a secondary business that is not the borrower's primary income source; and
- Income/loss from each separate business is  $\leq 10\%$  of qualifying income for the transaction; and
- All losses are subtracted from the borrower's qualifying income.

If income from a business is used to qualify the borrower, or if business expenses are added back to income or a loss, then business tax returns, associated schedules, and profit and loss statements must be obtained. Clients may also use discretion to obtain all documentation for self-employed earnings when the secondary business may have a significant impact on the loan.

#### 8.5.24.8 Cash Flow Analysis

The client 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 federal income tax returns. A copy of the client's written analysis must be included in the loan file.

#### 8.5.25 SOCIAL SECURITY INCOME

When a borrower is drawing Social Security benefits from their own account/work record in the form of Retirement or Disability, one of the following items is required:

- Social Security Administrator's (SSA) Award letter, or
- Proof of current receipt

When a borrower is drawing benefits from their own account/work record in the form of Supplemental Security Income (SSI), both the award letter AND proof of current receipt must be obtained.

When a borrower is drawing Social Security benefits from another person's account/work record, all the following items are required:

- SSA Award letter
- Proof of current receipt; and

- Proof benefit will continue for at least 3 years (e.g., verification of beneficiary's age)

See also [8.5.17 Non-Taxable Income](#).

### **8.5.26 STOCK OPTION INCOME**

Restricted Stock Income – Oaktree Funding will only consider restricted stock that was awarded in prior 2 years and became unrestricted (vested) in the current year. The current Vesting Schedule must indicate the income will continue for a minimum of 3 years at a similar level to the prior 2 years. Continuance is based on the vesting schedule using a stock price based on the 52-week low for the most recent 12 months reporting at the time of closing. A 2-year average of prior income received from RSU's, or stock option will be used. The following documentation is required:

- Copy of the Vesting Schedule
- Most Recent W2 and pay stub.
- Private Stock not Eligible

### **8.5.27 TEACHER INCOME**

Teachers are paid on a 9-month, 10-month or 12-month basis. The client should determine how the pay is structured before calculating the monthly income. If uncertainty exists, the borrower may provide a copy of their contract, or the client may verbally confirm with the school district's personnel office.

### **8.5.28 TIPS AND GRATUITIES**

Tips and gratuity income can be considered if receipt of such income is typical for borrower's occupation (i.e., waitperson, taxi driver, etc.). Income should be received for at least 2 years and documented through the most recent year-to-date pay stubs and federal income tax returns for the most recent 2 years. 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.

### **8.5.29 TRAILING SPOUSE OR CO-BORROWER INCOME/RELOCATION**

Trailing spouse income or co-borrower income to be received when the borrower is being relocated is not allowed to be used as qualifying income.

### 8.5.30 TRUST INCOME

Trust income can be used for qualification when all the following requirements are met:

- Copy of the trust agreement or the trustee’s statement must be obtained to confirm the amount, frequency, and duration of payments.
- Trust income to continue for at least 3 years from date of the mortgage application; and
- History of receiving the trust income must be documented for a minimum of 3 months.

Lump-sum distributions from the trust made prior to loan closing can be used for down payment or closing costs if the withdrawal does not affect the qualifying number of continuing distributions to the borrower. The funds must be verified by a copy of the check or the trustee’s letter that shows the distribution amount. See also [10.3.19 Trust Accounts](#).

### 8.5.31 UNREIMBURSED BUSINESS EXPENSES - MILEAGE/AUTO EXPENSE

When the borrower uses “Actual Expenses” for a leased automobile rather than the “Standard Mileage Rate,” the “Actual Expenses” section of the IRS Form 2106 must be analyzed to determine the amount of the lease payments. The lease expense should only be counted once in the borrower’s cash flow analysis, either as an expense on Form 2106 or as a monthly obligation.

If automobile depreciation is referenced on IRS Form 2106, the borrower’s cash flow needs to be adjusted based on the depreciation method selected by the borrower:

- Standard Mileage Deduction: multiply business miles driven by the depreciation factor for the appropriate year and add the calculated amount to the borrower’s cash flow.
- Actual Depreciation Expense Deduction: add the amount the borrower claimed to the borrower’s cash flow.

### 8.5.32 UNACCEPTABLE INCOME

- Gambling winnings (except lottery continuing for 5 years)
- Educational benefits
- Stock options
- Refunds of federal, state, or local taxes
- Illegal income
- Expense account reimbursement

### **8.5.33 UNEMPLOYMENT COMPENSATION**

Income derived from unemployment compensation is generally not allowed due to the limited duration of its receipt. Seasonal unemployment, however, can be considered if the borrower is employed in a field where weather affects the ability to work and where unemployment compensation is often received (i.e., construction). The income can be used to qualify on with a 2-year employment history in the same field of work and a 2-year history of receipt of unemployment compensation. Income should be averaged over the time period verified.

### **8.5.34 VA SURVIVORS' BENEFITS/DEPENDENT CARE**

VA benefits must be documented with a copy of the award letter or distribution forms and must continue for at least 3 years.



# 9 RATIOS AND QUALIFYING

## 9.1 RATIOS

The housing ratio is calculated by dividing the borrower's total monthly housing expense by the borrower's total monthly qualifying income.

The debt-to-income ratio (DTI) is calculated by adding the borrower's total PITIA and the borrower's total monthly obligations (installment and revolving debt, alimony, child support, net rental loss, etc.) and dividing by the borrower's total monthly qualifying income.

RATIO AND EXPANDED RATIO REQUIREMENTS			
	NON-AGENCY ADVANTAGE	INVESTMENT PROPERTY PROGRAM	TITANIUM ADVANTAGE
MAX STANDARD DEBT RATIO	50%	50%	50%
MAX EXPANDED DEBT RATIOS TO 55%	ALL the following requirements apply: Primary Residence • 85% Max LTV (Full Doc) • 80% Max LTV (Bank Statement) • Credit Score $\geq$ 680 • 12 Months Reserves • Residual Income $\geq$ \$3,500	N/A	ALL the following requirements apply: Primary Residence • 85% Max LTV (Full Doc) • 80% Max LTV (Bank Statement) • Credit Score $\geq$ 680 • 12 Months Reserves • Residual Income $\geq$ \$3,500

## 9.2 RESIDUAL INCOME

Residual income is required for all primary and second home transactions using the following calculation:

$$\text{Residual Income} = \text{Gross Monthly Income} * (1 - \text{Borrower's Debt-to-Income Ratio})$$

Residual Income of \$1,500 is required.

### **9.3 PAYMENT SHOCK**

Payment Shock is limited to 350% on primary residence transactions, and is calculated as follows:

$$\text{Payment Shock} = (\text{Proposed Housing Payment} / \text{Present Housing Payment}) * 100$$

For borrowers who have less than a 12-month housing history, do not have a current housing payment, or own a home free and clear, payment shock is not considered. See [5.5.4 No Housing History or Less Than 12 Months Verified](#).

### **9.4 ADJUSTABLE RATE AND INTEREST-ONLY QUALIFYING**

For all ARM loan transactions, the greater of the note rate or the fully indexed rate is used to determine the qualifying PITIA. The fully indexed rate is calculated by adding the margin to the index.

Interest-only loans on owner occupied transactions will qualify using the greater of the note rate or the fully indexed rate using the fully amortized payment over the fully amortized term of the loan. Investment property loans will qualify using the interest only payment over 360 months regardless of the Interest Only Period (Standard and Professional Investor Programs only).

30 year fixed, 7/1 and 5/1 ARM products, the interest-only option is available as a 40-year term or a 30-year term. The 40-year interest-only term has a 10-year initial interest-only period followed by a 30-year fully amortizing period, and the 30-year term has a 10-year initial interest-only period followed by a 20-year fully amortizing period.



## ADJUSTABLE-RATE CRITERIA

	NON-AGENCY ADVANTAGE	INVESTOR ADVANTAGE
MARGIN	3.75%	5.00%
CAPS	5 YEAR ARM = 2/1/5	5 YEAR ARM = 2/1/5
	7 YEAR ARM = 5/1/5	7 YEAR ARM = 5/1/5
INDEX	30 DAY AVERAGE SOFR	30 DAY AVERAGE SOFR
RESET PERIOD	6 MONTHS	6 MONTHS
FLOOR	MARGIN	MARGIN

30 DAY AVERAGE SOFR INDEX AS PUBLISHED BY THE NEW YORK FEDERAL RESERVE

## 10 ASSET ANALYSIS

Loan files must evidence sufficient funds from acceptable sources for down payment, closing costs, prepaid items, debt payoff, and applicable reserves. A borrower's ability to accumulate assets provides insight into the individual's ability to successfully manage personal finances.

See [7.3 Asset Documentation](#) for sourcing and seasoning requirements.

## 10.1 DOWN PAYMENT

See applicable Oaktree Loan Program Matrix for specific LTV and down payment requirements.

## 10.2 RESERVES

Reserves are measured by the number of months of housing expense a borrower could pay using his or her financial assets. See the applicable Oaktree Loan Program Matrix for reserve requirements. The highest reserve requirement, rather than a cumulative total, should be used when a transaction has multiple required reserves. Reserves for all Interest Only Loans may be calculated using the Interest Only Payment.

Net proceeds from cash-out transactions can be used to meet the reserve requirement. Gift funds may not be considered.

Additional reserves are also required when the following situations are present:

- [Multiple Financed Properties](#): Borrowers with greater than 2 financed properties require 2 months of reserves for each additional financed property.
- [First-Time Homebuyer](#): 6 months

[No Housing History or Less Than 12 Months Verified](#): 6 months

## ASSETS

### 10.3.1 BORROWED FUNDS SECURED BY AN ASSET

Borrowed funds that are secured by an asset can be used as a source of funds for 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 terms of the secured loan and transfer of funds to the borrower should be documented. 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 and there are sufficient assets to pay off the loan currently verified, the monthly payment for the loan does not have to be considered as a long-term debt when qualifying the borrower (as in the case of a 401(k) loan).



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

### **10.3.2 BUSINESS ASSETS**

For self-employed borrowers, business assets are an acceptable source of funds for down payment, closing costs, and reserves. The borrowers on the loan must have 525% ownership of the business and must be the owners of the account. Access letters from the remaining owners of the business must be obtained as well. A letter from a CPA must be obtained verifying that the withdrawal of funds for the transaction will not have a negative impact on the business. If a CPA letter is not provided, a cash flow analysis of the business assets and liabilities (balance sheet) must be completed by the client to determine if the withdrawal of funds from the business is acceptable.

### **10.3.3 CONCESSIONS AND CONTRIBUTIONS**

#### **10.3.3.1 Financing Concessions/Client Contributions**

For primary residence and second home transactions, the property seller and/or interested parties may contribute up to 6% of the lesser of the property's sales price or appraised value toward the buyer's closing costs, prepaid expenses, discount points, and other financing concessions. Loan to Value's above 90% LTV the max allowable is 3% of the lesser of the property's sales price or appraised value.

For investment property transactions, the property seller and/or interested parties may contribute up to 2%.

#### **10.3.3.2 Sales Concessions**

Sales concessions include:

- Financing concessions in excess of the max financing concession limitations; or
- Contributions such as cash, furniture, automobiles, decorator allowances, moving costs, and other giveaways granted by any interested party to the transaction (contributions with a combined value under \$1,000 should be excluded)

The value of sales concessions must be deducted from the sales price when calculating LTV for underwriting and eligibility purposes. The LTV is then calculated using the lower of the reduced purchase price or the appraised value.

### 10.3.4 DEPOSITORY ACCOUNTS

Funds held in a checking, savings, money market, certificate of deposit, or other depository accounts can be used for down payment, closing costs, and reserves.

The client must investigate any indications of borrowed funds, including recently opened accounts, recent large deposits, or account balances that are considerably greater than the average balance over the previous few months. A signed, written explanation of the source of funds should be obtained from the borrower and the source of funds verified. Unverified funds are not acceptable. See also [7.3 Asset Documentation](#).

If the borrower does not hold the deposit account solely, all non-borrower parties on the account (excluding a non-borrowing spouse) must provide a written statement that the borrower has full access and use of the funds. See also [10.3.16 Spousal Accounts](#).

If bank statements provided reflect payments being made on obligations not listed on the credit report, see [6.15 Undisclosed Debts](#) for additional guidance. Any specific deposit exceeding 50% of the monthly calculated income must be explained and sourced. Sourcing of deposits is not required on refinance transactions. The underwriter may request sourcing for deposits that appear to be loans on ALL transaction types.

### 10.3.5 EARNEST MONEY/CASH DEPOSIT ON SALES CONTRACT

If earnest money is needed to meet the borrower's minimum contribution requirement, the client must verify that the funds are from an acceptable source. Satisfactory documentation includes any of the following:

- Copy of the borrower's canceled check.
- Certification from the deposit holder acknowledging receipt of funds.
- VOD or bank statement showing that the average balance was sufficient to cover the amount of the earnest money at the time of the deposit.

If the earnest money check has cleared the bank, bank statements should cover the period up to and including the date the check cleared the account. A copy of the check that has not cleared may also be obtained along with a processor's certification verifying with the bank the date the check cleared, the dollar amount of the check, and the individual providing the information.

### 10.3.6 BORROWERS ACTING AS REALTOR

Borrowers are eligible to act as their own realtor in purchase transactions. All commissions earned from the transaction are eligible to be applied towards the down payment and closing costs.

### 10.3.6 GIFT FUNDS

Gift funds are allowed after the borrower has made the [minimum required borrower contribution](#) towards the down payment.

Gift funds can be used for down payment and closing costs but are not allowed to meet the reserve requirement.

A signed gift letter is required to provide all the following information:

- Donor's name, address, phone, and relationship to borrower (donor must be a relative); and
- Dollar amount of gift; and
- Date funds were transferred; and
- Donor's statement that no repayment is expected.

Clients must verify that sufficient funds to cover the gift are either in the donor's account or have been transferred to the borrower's account. Acceptable documentation includes any of the following:

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

When the funds are not transferred prior to closing, the client 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.

See also [10.3.16 Spousal Accounts](#).

### 10.3.7 GIFTS OF EQUITY

Gifts of equity on non-arm's length transactions are allowed. Transactions with gifts of equity are subject to the maximum LTVs available for cash-out transactions, and no minimum borrower contribution is required.

The following requirements apply:

- Primary residence transactions only

- Gift of equity is from an immediate family member.
- Six months of reserves required of borrower's own funds.
- [Non-arm's length](#) criteria are met
- Signed gift letter is provided.
- Gift of equity is listed on the settlement statement.

### 10.3.8 FOREIGN ASSETS

Assets used for down payment and closing costs must be seasoned in a U.S. depository institution for 30 days prior to closing.

Foreign assets deposited into a U.S. institution within 60 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 belonged to the borrower before the date of transfer.

Assets held in a foreign account can be used for reserves for [Non-Permanent Resident Aliens](#) and [Foreign Nationals](#). The most recent 30-day account statement is required, and funds are to be converted to U.S. dollars using the current exchange rate. A letter of reference on company letterhead from a verifiable banking institution may also be obtained. Contact information must be provided by the person signing the letter, and the letter must state the type of relationship, length of the relationship, how accounts are held, and current balance. Any translation must be signed and dated by a certified translator.

### 10.3.9 LIFE INSURANCE

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

To document 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.

The client must assess any repayment obligations 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 amount must be factored into the total debt-to-income ratio or subtracted from the borrower's reserves.

### 10.3.10 MINIMUM BORROWER CONTRIBUTION

Borrowers must contribute a minimum of 5% of the purchase price from their own funds towards the down payment on Non-Agency Advantage Program purchase transactions. Investment property transactions require all funds come from the borrower, including all DSCR loans.

A minimum borrower contribution of 10% is required on the following transactions (above waiver does not apply):

- Primary residence with unverifiable housing history
- Second home transactions
- Limited Tradelines

### 10.3.11 NET PROCEEDS FROM SALE OF REAL ESTATE

If part of the down payment is expected to be paid from the sale of the borrower's current home, a final settlement statement verifying sufficient net proceeds must be obtained.

### 10.3.12 RENT CREDIT FOR LEASE WITH PURCHASE OPTION

Borrowers may apply a portion of the rent paid to their down payment requirements. Credit for the down payment is determined by calculating the difference between the market rent and the actual rent paid for the last 12 months. The market rent is determined by the appraiser in the appraisal for the subject property. See [3.11 Lease with Purchase Option](#) for full requirements.

The client must obtain the following documentation:

- Copy of the rental/purchase agreement evidencing a minimum original term of at least 12 months, clearly stating the monthly rental amount and the terms of the lease.
- Copies of the borrower's canceled checks or money order receipts for the last 12 months evidencing the rental payments.
- Market rents as determined by the subject property appraisal.

### 10.3.13 RETIREMENT ACCOUNTS

Vested funds from individual retirement accounts (IRA/SEP/Keogh accounts) and tax-favored retirement savings accounts (401(k) accounts) are acceptable sources of funds for the down payment, closing costs, and reserves. The lender

must verify the ownership of the account and confirm that the account is vested and allows withdrawals regardless of current employment status.

If the retirement assets are in the form of stocks, bonds, or mutual funds, the account must meet the requirements of [10.3.18 Stocks, Bonds, and Mutual Funds](#) for determining value and whether documentation of the borrower's actual receipt of funds is required when used for the down payment and closing costs. When funds from retirement accounts are used for reserves only 60% of the vested balance may be used and they do not have to be withdrawn from the account.

If the borrower intends to use the retirement account to also satisfy income requirements, see also [8.4.20.1 Proof of Continuance](#).

### 10.3.14 SALE OF PERSONAL ASSETS

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

The client must document the following:

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

### 10.3.15 SECONDARY/SUBORDINATE FINANCING

Secondary or subordinate financing is allowed to a limit as posted on the applicable matrix. Secondary financing is not permitted for investor-occupied properties.

If the subordinate financing has a simultaneous closing, the following is required:

- A copy of the loan approval and repayment terms for the new financing; and
- A copy of the executed note at closing.

If the subordinate financing is being subordinated, the following is required:

- The repayment terms of the existing second lien.
- An unsigned copy of the subordination agreement prior to closing; and
- A copy of the executed subordination agreement at closing

The following requirements apply to all subordinate liens:

- Client-held subordinate liens are not permitted.
- Subordinate financing must be recorded and clearly subordinate to the new mortgage.
- Payment on the subordinate financing must be included the borrower's DTI. If a payment is unable to be determined, 1.5% of the original loan balance can be used.
- If the debt is an equity line of credit, the CLTV ratio is calculated by adding the total HELOC credit line limit (rather than the amount of the HELOC in use) to the first mortgage amount, plus any other subordinate financing, and dividing that sum by the value of the property.
- Negative amortization is not allowed, and the scheduled payments must be sufficient to cover at least the interest due.
- Subordinate financing from the borrower's employer may not include a provision requiring payment upon termination.
- Seller Financing is not allowed

Subordinate liens can be paid off through closing. See [3.4 Rate/Term Refinance](#) and [3.5 Cash-out Refinance](#) for more information.

### 10.3.16 SPOUSAL ACCOUNTS

Accounts held solely in the name of a non-borrowing spouse may be used for down payment and closing costs only and are subject to the seasoning requirements outlined in [7.3 Asset Documentation](#).

Accounts held solely in the name of a non-borrowing spouse may not be used to meet reserve requirements.

### 10.3.17 STOCK OPTIONS

Vested stock options are an acceptable source of funds for down payment and closing costs when immediately available to the borrower. Stock options may not be used to meet reserve requirements. The value of vested stock options can be documented by:

- Referencing a statement listing the number of options and the option price; and
- Determining the gain that would be realized from exercise of an option and the sale of the optioned stock using the current stock price.

### 10.3.18 STOCKS, BONDS, AND MUTUAL FUNDS

Vested assets in the form of stocks, government bonds, and mutual funds are acceptable sources of funds for the down payment, closing costs, and reserves provided their value can be verified. The lender must verify the borrower's ownership of the account or asset.

When used for the down payment or closing costs, if the value of the asset is at least 20% more than the amount of funds needed for the down payment and closing costs, no documentation of the borrower's actual receipt of funds realized from the sale or liquidation is required. Otherwise, evidence of the borrower's actual receipt of funds realized from the sale or liquidation must be documented.

When used for reserves, 100% of the value of the assets (as determined above) may be considered, and liquidation is not required. \*\* Oaktree may require the use of a lower percentage of account balances if other exceptions are granted.

### 10.3.19 TRUST ACCOUNTS

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

To document trust account funds, the client must:

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

See [8.4.29 Trust Income](#) if trust is also being used as a source of income to qualify the borrower.

### 10.3.20 UNACCEPTABLE FUNDS

- Cash-on-hand
- Sweat equity.
- Gift or grant funds which must be repaid.
- Down payment assistance programs
- Bridge loans
- Unsecured loans or cash advances
- Section 8 Voucher Assistance





# 11 PROPERTIES

## 11.1 GENERAL PROPERTY 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 client is responsible for all the following:

- The 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 and the requirements of the Federal Truth in Lending Act and Regulation Z with respect to valuation independence.
- 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
- Ensuring the appraiser does not use unsupported assumptions or use race, color, religion, sex, handicap, familial status, national origin for any party in the transaction, or impermissible demographics of the community in which the property is located, as the basis for market value

## **11.2 UNIFORM RESIDENTIAL APPRAISAL REPORT (URAR)**

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

- Uniform Residential Appraisal Form (FNMA Form 1004)
- Small Residential Income Property Appraisal Report (FNMA Form 1025)
- Individual Condominium Unit Appraisal Report (FNMA Form 1073)
- Market Conditions Addendum to the Appraisal Report (FNMA Form 1004MC)
- Appraisal Update and/or Completion Report (FNMA Form 1004D)
- Single Family Comparable Rent Schedule for all 1-unit investment properties (FNMA Form 1007)
- Operating Income Statement for 2-4-unit investment properties (FNMA Form 216)
- 1-4 Family Rider (Assignment of Rents) for all investment properties (FNMA Form 3170)

### **11.2.1 APPRAISAL REPORT REQUIREMENTS**

The following items must be contained in the appraisal report:

- Street map showing the location of the subject property and all comparables used.
- Exterior building sketch of the improvements indicating dimensions. A floor plan sketch is required along with calculations demonstrating how the estimate for gross living area is determined. For a unit in a condo project, the sketch of the unit must indicate interior perimeter unit dimensions rather than exterior building dimensions.
- Original color photographs or digital color images of the front, street, and rear views of the subject property. Original digital black and white photographs/pictures are permitted if the appraisal clearly indicates the subject property meets our standards.
- Interior photos of the subject are required to include the kitchen, all bathrooms, the main living area, any areas with physical deterioration, and any renovations/ improvements.
- Any other data as an attachment or addendum to the appraisal report form necessary to provide an adequately supported estimate of market value.

- Appraisal report must contain analysis of all agreements of sale, options, or listings for the subject property current as of the effective date of the appraisal, and analysis of all sales of the subject property that occurred within the 3 years prior to the effective date of the appraisal.
- Appraisal report must include a completed Sales Comparison Approach section of FNMA Form 1004 where there are comparables used with more than one sale or transfer in the 12 months prior to the effective date of the appraisal.
- Appraiser comments on any unfavorable conditions, such as adverse environmental or economic factors, and how those conditions impact the market value of the property. In those cases, the appraiser's analysis must reflect and include comparable sales that are similarly affected.
- Certification and Statement of Limiting Conditions signed by the appraiser.

### **11.2.2 APPRAISER QUALIFICATIONS**

Real estate appraisers are to 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. They must have the requisite knowledge required to perform a professional quality appraisal for the specific geographic location and property type as well as have access to the necessary and appropriate data sources for the appropriate area of the appraisal assignment.

The client must have a process in place to ensure the appraisers it selects have the appropriate knowledge, experience, access to the appropriate data sources, geographic competence, and the ability to generate a quality appraisal report. The client may choose to use an appraisal management company; however, the client must establish appropriate procedures and qualifications and continue to meet all requirements noted in these guidelines.

An unlicensed or uncertified appraiser who works as an employee or subcontractor of a licensed appraiser may perform a significant amount of the appraisal if the appraisal report is signed by a licensed or certified appraiser and is acceptable under state law. A supervisory appraiser or any appraiser signing on the left-hand side of the appraisal report as the "Appraiser" must have performed the level of inspection of the subject property required by the assignment.

### **11.2.3 ELECTRONIC SUBMISSION OF APPRAISAL REPORT**

Appraisal reports which have been transmitted electronically using internet, wireless transmissions, or other types of electronic transmissions are acceptable, provided the following are met:

- The appraisal report accurately identifies the appraiser and is signed by the appraiser. Digitized signatures are acceptable.
- The appraisal report was created by the appraiser whose name appears on the appraisal report and that the appraisal is complete, unaltered, and submitted by the identified appraiser.

#### **11.2.4 TRANSFERRED APPRAISALS**

Transferred appraisals are only allowed when the appraisal has been reviewed by Oaktree's preferred AMC (AMC Direct) on brokered loans, or in the name of the lender for correspondent transactions. All transferred appraisals require a transfer letter. In the case of a correspondent loan, Oaktree Funding will need to review the policy of the client to ensure compliance with the Appraiser Independence Requirements.

However, if the loan is a correspondent transaction, where the client maintains their own appraisal process, the client must submit the appraisal in their own name, along with a transfer letter.

#### **11.2.5 AGE OF APPRAISAL AND APPRAISAL UPDATES**

When an appraisal report will be more than 4 months old on the date of the note and mortgage, regardless of whether the property was appraised as proposed or existing construction, the appraiser must inspect the exterior of the property and review current market data to determine whether the property has declined in value since the date of the original appraisal.

This inspection and results of the analysis must be reported on the Appraisal Update and/or Completion Report (Form 1004D), with interior and exterior photos.

If the appraiser indicates on the Form 1004D that the property value has declined, then the client must obtain a new appraisal for the property.

If the appraiser indicates on the Form 1004D that the property value has not declined, then the client may proceed with the loan in process without requiring any additional fieldwork.

Note: When relying on an appraisal update, the appraisal cannot be more than 180 days old at the time of closing and the appraisal update must occur within the 4 months that precede the date of the note and mortgage

The original appraiser should complete the appraisal update; however, clients may use substitute appraisers. When updates are completed by substitute appraisers, the substitute appraiser must review the original appraisal and express an opinion

about whether the original appraiser's opinion of market value was reasonable on the date of the original appraisal report. The client must note in the file why the original appraiser was not used.

### DSCR Investor Program

For loans under the Professional Investor Program, appraisals are valid for 120 days.

## **11.2.6 USE OF AN APPRAISAL FOR A SUBSEQUENT TRANSACTION**

Oaktree Funding will allow the use of an origination appraisal for a subsequent transaction if the following requirements are met:

- The subsequent transaction may only be a Limited Cash-Out Refinance.
- The age of the appraisal report must be less than 12 months from the note date of the subsequent transaction. If the appraisal report is greater than four months from the date of the note and mortgage, then an appraisal update is required. See preceding section, Age of Appraisal and Appraisal Update Requirements, for requirements for completing an appraisal update.
- The lender must ensure that the property has not undergone any significant remodeling, renovation, or deterioration to the extent that the improvement or deterioration of the property would materially affect the market value of the subject property.
- The borrower and the lender/client must be the same on the original and subsequent transaction.

## **11.3 MINIMUM PROPERTY STANDARDS**

All properties must:

- Be improved real property.
- Be designed and available for year around residential use.
- Contain a kitchen and a bathroom.
- Contain a minimum of 600 square feet of gross living area. Multi-unit properties with specific units below 600 square feet will be considered on a case-by-case basis assuming that these units meet code and all other municipal requirements to be considered a legal living dwelling. There can be no negative affect to marketability due to the smaller unit size as well.

- 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.
- Average or better than average condition
- 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.

#### **11.4 PROPERTY LOCATION**

See applicable Oaktree Loan Program Matrix. Subject property must be subject to the laws of the state in which the loan is made.

#### **11.5 ELIGIBLE PROPERTY TYPES**

<b>PROPERTY ELIGIBILITY</b>	
<b>PROPERTY TYPE</b>	<b>ELIGIBLE</b>
Single-Family Residence Detached	Yes
Single-Family Residence Attached	Yes
Planned Unit Development (PUD) Detached. - New PUD Developments may be ineligible for lending. Oaktree will review appraisal PUD info for specifics.	Yes
Planned Unit Development (PUD) Attached – PUD Cert will be required	Yes
Townhomes	Yes
Multi-family properties (2-4 unit)	Yes
Manufactured Homes	No
Modular Homes	Yes

Condominium (low-rise 1-4 stories)	Yes
Condominium (high-rise 5+ stories)	Yes
Site Condominium	Yes
Non-Warrantable Condominiums (Per Oaktree Non-Warrantable Guidelines)	Yes
Co-operative Units	No
Condotels or Condo Hotels	Yes, Max 65 LTV
Mixed-Use Properties (includes Adult Care facilities)	Case by Case per guidelines
Log Homes	Yes, Primary or Second Homes Only, Max 75% LTV
Farms or Hobby Farms	No
Properties subject to Rent Control regulations	Case by Case
Unique Properties (Earth Homes, Berm Homes, Dome Homes, etc.)	No

## **11.6 MARKET ANALYSIS**

### **11.6.1 NEIGHBORHOOD REVIEW**

The neighborhood section should contain an accurate description of the subject's neighborhood and any factors about the neighborhood that may influence value. Specific neighborhood characteristics include the following:

- Degree of development
- Demand and supply
- Present land use
- Owner-occupancy
- Price range and predominant value
- Age of subject property
- Appeal to market and marketing time



### **11.6.2 COMPATIBILITY OF SUBJECT PROPERTY AND 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.

### **11.6.3 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.

### **11.6.4 AGE OF COMPARABLES**

Generally, appraisals should contain comparables sales dated within 6 months from the report date. Comparables from 6 to 12 months are permitted on a limited basis with an explanation from the appraiser. Older comparable sales that are the best indicator of value for the subject property may be used if appropriate. Clients to ensure value is supported and market acceptance has been demonstrated when older comparables are utilized.

### **11.6.5 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 their conclusions for the reasons a market is experiencing declining property values, an over-supply of properties, or marketing times over 6 months. The Market Conditions Addendum (FNMA Form 1004MC) is required for all loans with appraisals of 1-4-unit properties.

#### **11.6.5.1 Declining Property Values**

Properties located in areas of declining value will have the maximum allowable LTV reduced by a minimum of 5%. This restriction may be increased based on the opinion of the appraiser as noted in the appraisal.

#### **11.6.6 REDLINING PROHIBITION**

Prohibited bases such as 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 refer 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.

#### **11.6.7 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. Clients 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.

## 11.7 VALUATION ANALYSIS

### 11.7.1 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 client 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 client to buyer under conditions whereby:

- Buyer and client of property are typically motivated.
- Both parties are well informed or well advised, 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 comparable.
- 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.

A minimum of 3 closed comparable sales must be reported in the sales comparison approach. Additional comparable sales may be reported to support the opinion of market value provided by the appraiser. The subject property can be used as a fourth comparable sale or as supporting data if it was previously closed. Contract offerings and current listings can be used as supporting data, if appropriate.

Comparable sales utilized in the market approach should:

- Be within one mile of the subject property.
- Have been closed within the last 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 3 of the comparables should be 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.

### **11.7.2 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. See also [11.8.12 Land Value](#). Appraisals that rely solely on the cost approach as an indicator of market value are not acceptable.

### **11.7.3 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.

### **11.7.4 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.

### **11.7.5 APPRAISAL REVIEW PROCESS**

The Appraisal Review Process requires clients to obtain a Desk Review on all loans from either Clear Capital or Protek Valuation Services on all loans to support the appraisal value for the transaction. If the Desk Review variance is greater than 10% of the appraised value, one of the following appraisal products will be required:

- Clear Capital or ProTek BPO and Final Reconciliation of Value
- Field Review
- Additional Full Appraisal (appraisals must be completed by different, independent appraisers and the lowest of all appraised values used to determine value)

The following transactions require a 2nd full appraisal:

- Approved loan amount exceptions
- HPML flip transactions as defined by the CFPB.

- Loan amounts > \$2,000,000

A Desk Review will be required on the lower of the 2 appraised values. If the Desk Review variance exceeds 10% a Clear Capital or ProTek BPO product and Final Reconciliation of Value product is required.

Existing client policies should continue to be followed for guidance on ordering discretionary appraisal review products if there are concerns with the original appraisal report. Oaktree Funding reserves the right to request additional appraisal products at their discretion based on review of the appraisal and loan file.

### **11.7.6 APPRAISAL REVIEW TOLERANCE**

A 10% tolerance is permitted for secondary review products. If the review product value is more than 10% below the appraisal value, the lower of the two values must be used.

If the tolerance is exceeded, the client may choose to order an additional review product of a higher-level review. The original appraised value may then be used if the additional review product value is within 10% of the appraised value. If the variance is greater than 10%, a second full appraisal is required.

## **11.8 PROPERTY CONSIDERATIONS**

### **11.8.1 ACCESSORY UNITS**

Properties with accessory units, also known as Granny units, mother-in-law suites, etc., are acceptable if all the following are met:

- Property is typical, readily acceptable, and common in the subject's market area.
- Property must conform to all zoning laws and/or regulations.
- Appraisal contains 2 comparables with similar additional accessory units.
- Accessory unit is substantially smaller than the primary dwelling.
- Legal non-conforming use is 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 unless requirements outlined in the applicable documentation section of the guidelines are met.
- Existence of the unit must not jeopardize any future hazard insurance claim that may need to be filed for the property.

### 11.8.2 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 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.

### 11.8.3 DEED RESTRICTIONS

Deed restrictions impact the future transferability of a property. The following deed restrictions are allowed:

- Age Restricted Communities

Deed restrictions must be reviewed to ensure all the following requirements are met:

- Appraisal supports property is common and typical for the market area.
- Deed restriction must not impair or restrict the first mortgage holder's legal rights in the event of a default (or cure), foreclosure, or any other default measure.
- Declarations must not contain any provisions that would require the first mortgage holder to send a notice of default or foreclosure to any third party.
- Deed restriction must not require the lender to provide notification to the governing authority of any delinquency or default.

### 11.8.4 DEFERRED MAINTENANCE

Property must be in average or better condition. Grades of C5 or lower are not allowed under any circumstances. Deferred maintenance is allowed provided the neglected item is not structural in nature or a health and safety hazard (as noted by the appraiser). Qualified deferred items may be left "as is" if the aggregate cost to cure the deficiency does not exceed \$2500 and does not negatively impact the safety or habitability of the property. These items should be minor and cosmetic in nature.

#### DSCR Program Note:

For the DSCR Investor Program, deferred maintenance resulting in an appraisal grade of "Below Average" for 2-4-unit properties is not allowed. A grade of C4 is eligible provided the neglected item is not structural in nature or a health and safety hazard (as noted by the appraiser). These items should be minor and cosmetic in nature with a cost cure not to exceed \$2500.

## 11.8.5 DISASTER AREAS

Clients are responsible for identifying areas impacted by disasters and taking the appropriate steps to ensure the subject property has not been adversely affected. Examples of disasters include, but are not limited to, hurricanes, earthquakes, floods, landslides, tornadoes, wildfires, volcanic eruptions, civil unrest, and terrorist attacks.

Adverse events that receive a formal disaster declaration issued by local, state, or federal departments of emergency management must follow the procedures listed below. A list of all federally declared disaster areas may be found on the FEMA website at <http://www.fema.gov/disasters>.

In addition, when there is knowledge of an adverse event occurring in and around the subject property's geographic region and a formal declaration has not yet been made, additional due diligence is required to determine whether the disaster area guidelines must be followed.

### 11.8.5.1 TIME PERIOD

Guidelines for disaster areas should be followed for 90 days from the incident period ending date or the date the adverse event occurred, whichever is later.

### 11.8.5.2 APPRAISAL NOT COMPLETED OR APPRAISED PRIOR TO DISASTER INCIDENT

When the appraisal was completed prior to the disaster incident, or the appraisal has not been completed, an interior and exterior inspection of the subject property is required.

- Inspection must be completed by licensed third-party professional to certify the condition of the subject property and to identify any impact to habitability or marketability.
- Inspection report must include photographs of front, rear, and street view of the property.
- Any damage must be repaired and re-inspected prior to purchase.
- File must contain a copy of the inspection report and evidence of inspector licensing.

An appraisal update or final inspection from the appraiser must also be obtained.

- Appraiser must comment on the adverse event and certify there has been no decline in value.
- Existing damage must meet requirements in [11.8.4 Deferred Maintenance](#).

### 11.8.5.3 APPRAISED AFTER DISASTER INCIDENT

When the inspection date of the appraisal is after the disaster incident, the following requirements must be met:

- Appraiser must comment on the adverse event and any effect on marketability or value.
- Existing damage must meet requirements in [11.8.4 Deferred Maintenance](#).

### 11.8.5.4 Disaster Incident Occurs After Closing, Prior to Funding or Purchase

Loan is ineligible for purchase or funding until an appraisal update or final inspection from the appraiser is obtained.

- Appraiser must comment on the adverse event and certify there has been no decline in value.
- Existing damage must meet requirements in [11.8.4 Deferred Maintenance](#).

### 11.8.5.5 VERBAL VERIFICATION OF EMPLOYMENT RE-VERIFICATION

If a disaster event occurs after the Verbal Verification of Employment (VVOE) has been completed, the client must obtain an update to ensure the borrower is still employed and that they are continuing to receive the same amount of income.

### 11.8.6 ELECTRICAL SYSTEMS

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.

### 11.8.7 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 may 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.

### 11.8.8 ESCROWS FOR WORK COMPLETION

Not allowed



### 11.8.9 FLOOD ZONE

The appraisal should indicate if the property is in a flood zone. Refer to [12.3 Flood Insurance](#) for additional information on flood certifications and flood insurance.

### 11.8.10 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.

Properties with evidence of sinkhole activity are ineligible for financing.

### 11.8.11 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:

- the heat source is typical for the area.
- the heat source is permanently attached.
- the heat source is adequate for the dwelling.
- the heat source is externally vented.

### 11.8.12 LAND VALUE AND ACREAGE

Acreage and land value must be typical and common for the subject's market. Maximum acreage permitted is 20 acres. Special consideration should be taken for properties with land values that exceed 35% of the total property value to ensure the value is justified and the property has marketability. The appraisal report must provide data which indicates like-size properties with similar land values are typical and common in the subject's market area.

See also [11.8.23 Rural Properties](#).

### 11.8.13 LOG HOMES

Log homes are eligible for financing as a primary or second home at a maximum LTV of 75%. The appraisal should provide a reliable opinion of market value supported by at least 2 similar log home comparables.

#### 11.8.14 MIXED USE PROPERTIES

Properties that have a business use in addition to their residential use may be permitted under the Non-Agency Advantage, Titanium Advantage, or the Investor Advantage Programs assuming the following requirements are met (i.e., property with space set aside for a day care facility, a beauty or barber shop, or a doctor's office):

The following criteria must be met in order to be considered:

- For owner occupied homes the property must be a 1-unit dwelling that the borrower occupies as a primary residence.
- The borrower must be both the owner and the operator of the business.
- The property must be primarily residential in nature.
- The dwelling may not be modified in a manner that has an adverse impact on its marketability as a residential property. There can be no commercial upgrades.
- The DSCR program will allow adult care facilities and residential rehab facilities on a case-by-case basis as long as the home is residential in nature with no commercial upgrades. These types of facilities are not allowed on Owner Occupied transactions.

In addition, the appraisal must contain the following:

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

#### 11.8.15 MODULAR HOMES

Modular, prefabricated, panelized, or sectional housing homes are eligible for financing at a maximum LTV of 80%.

Modular homes must meet all the following requirements:

- Must assume the characteristics of site-built housing; and
- Must be legally classified as real property; and

- Must conform to all local building codes in the jurisdiction in which they are permanently located.

#### **11.8.16 MULTIPLE DWELLINGS ON ONE LOT**

Properties with 3 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. See also [11.8.1 Accessory Units](#).

#### **11.8.17 MULTIPLE PARCELS**

When a property consists of more than one parcel of real estate, the following requirements must be met:

- Each parcel must be conveyed in its entirety.
- Parcels must be adjoined to the other unless they comply with the following exception. Parcels that otherwise would be adjoined, but are divided by a road, are acceptable if the parcel without a residence is a non-buildable lot (for example, waterfront properties where the parcel without the residence provides access to the water). Evidence that the lot is non-buildable must be included in the loan file.
- Each parcel must have the same basic zoning (for example, residential, agricultural).
- The entire property may contain only one dwelling unit. Limited additional nonresidential improvements, such as a garage, are acceptable. For example, the adjoining parcel may not have an additional dwelling unit. An improvement that has been built across lot lines is acceptable. For example, a home built across both parcels where the lot line runs under the home is acceptable.
- The mortgage must be a valid first lien that covers each parcel.

#### **11.8.18 NEW CONSTRUCTION**

The following are required for all new construction properties:

- Appraisal Update and/or Completion Report (FNMA Form 1004D) with complete interior and exterior photos reflecting completion, if applicable, Proposed improvements are not allowed.
- Property taxes are calculated at 1.25% of the sales price for qualification. 11.8.18 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.

#### **11.8.19 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.

#### **11.8.20 PRIVATE ROADS**

Properties on private roads are acceptable subject to the following:

- The title company must insure access to the subject property from a public street; and
- A 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.

#### **11.8.21 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. 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) and Type F (new).

### 11.8.21.1 DETACHED PUDS

If the subject property is a detached unit, no analysis is required.

### 11.8.21.2 ATTACHED PUDS

Attached Type E PUD: the developer must have turned over voting control of the HOA to the unit purchasers. This is the sole criteria to qualify a Type E Project.

Attached Type F PUD: the developer has not turned over voting control of the HOA to the unit purchasers. The project must meet the following eligibility criteria:

- The project cannot have been created by the conversion of existing buildings into a PUD.
- The project may not include any multi-dwelling units that represent the security for a single mortgage.
- The project must not be composed of manufactured homes.
- Enough of the total units in the project (or legal phase) must have been conveyed or be under contract to be sold to the purchasers in order to determine whether the presales will support the responsibilities of the owners' association for at least 2 years.
- The units must be owned in fee simple, and the unit purchasers must the sole ownership interest in, and right to the use or, the projects' facilities once control of the owners' association has been turned over to them.

### 11.8.22 REPAIRS

The appraisal must identify all items that require repair. It should also include and describe physical deficiencies that could affect a property's soundness, structural integrity, livability, or improvements that are incomplete. Any immediate or necessary repairs must be completed and re-inspected by the appraiser prior to closing. See also [11.8.4 Deferred Maintenance](#).

### 11.8.23 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 in a community with a population of less than 25,000.
- Distance to schools and/or amenities are 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 the following criteria:

- Primary residence and residential use only
- Maximum LTV allowed is 80%
- Maximum acreage allowed is 20, which includes road frontage and subject property.
- 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 surrounding properties.
- Property cannot be subject to idle acreage tax benefit or other tax incentive program.
- Present use as per the appraisal must be the “highest and best use” for the property.
- Condition, quality, and use of outbuildings should be considered in determining the market value of the subject property when the appraiser clearly supports the adjustments with similar comparable information.

Loans utilizing the Titanium Advantage 3-month bank statement program that are considered rural are ineligible for financing.

#### **11.8.24 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, 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 should be no more than 120 days old on the date of closing.

### 11.8.25 SOLAR PANELS

Properties with solar panels are eligible for financing. If the property owner is the owner of the solar panels, standard eligibility requirements apply (for example, appraisal, insurance, and title). If the solar panels are leased from or owned by a third party under a power purchase agreement or other similar arrangement, the following requirements apply (whether to the original agreement or as subsequently amended):

- The solar panels may not be included in the appraised value of the property.
- The property must maintain access to an alternate source of electric power that meets community standards.
- The monthly lease payment must be included in the debt-to-income (DTI) ratio calculation unless the lease is structured to.
  - provide delivery of a specific amount of energy at a fixed payment during a given period, and
  - have a production guarantee that compensates the borrower on a prorated basis in the event the solar panels fail to meet the energy output required for in the lease for that period.
- Payments under power purchase agreements where the payment is calculated solely based on the energy produced may be excluded from the DTI ratio.
- The lease or power purchase agreement must indicate that:
  - any damage that occurs as a result of installation, malfunction, manufacturing defect, or the removal of the solar panels is the responsibility of the owner of the equipment and the owner must be obligated to repair the damage and return the improvements to their original or prior condition (for example, sound and watertight conditions that are architecturally consistent with the home).
  - the owner of the solar panels agrees not to be named loss payee (or named insured) on the property owner's property insurance policy covering the residential structure on which the panels are attached. As an alternative to this requirement, the lender may verify that the owner of the solar panels is not a named loss payee (or named insured) on the property owner's property insurance policy; and

- in the event of foreclosure, the lender or assignee has the discretion to
  - terminate the agreement and require third-party owner to remove the equipment.
  - become, without payment of any transfer or similar fee, the beneficiary of the borrower's lease/agreement with the third party; or
  - enter into a new lease/agreement with the third party, under terms no less favorable than the prior owner.

#### **11.8.26 UNCONVENTIONAL FLOOR PLANS**

Properties with unusual floor plans or functional obsolescence are allowed if the appraisal demonstrates acceptability in the marketplace and includes appropriate adjustments. A floor plan sketch is required for all appraisals.

#### **11.8.27 WATER SUPPLY**

Water certification must be obtained if required by the appraiser or purchase contract. The report should be provided by a city, county, 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 can be no more than 120 days old on the date of closing. If new construction, the report may be one-year old as of the date of closing.

#### **11.8.28 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 note 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 maintenance the dwelling are ineligible.

## **11.9 CONDOMINIUMS**

A condominium is a form of ownership in which the interior space is individually owned, and the balance of the property (including land and building) is owned collectively with the other unit owners.

### **11.9.1 DEFINITIONS OF ESTABLISHED AND NEW CONDOMINIUMS**

Specific eligibility criteria are dependent upon whether the condo project reviewed classified as established or new.

Established condominium projects meet the following criteria:

- At least 90% of the total units in the project have been conveyed to the unit purchasers.
- Project is 100% complete, including all units and common elements.
- Project is not subject to additional phasing or annexation; and
- Control of the HOA has been turned over to the unit owners.

New condominium projects meet the following criteria:

- Fewer than 90% of the total units in the project have been conveyed to the unit purchasers.
- The project is not fully completed, such as proposed construction, new construction, or the proposed or incomplete conversion of an existing building to a condo.
- The project is newly converted; or
- The project is subject to additional phasing or annexation.

### **11.9.2 GENERAL CONDOMINIUM REQUIREMENTS**

All condominium projects must meet the following requirements:

- 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.
- The sustainability, marketability and financial stability of the project must be supported.

- Project must be in an area where acceptability of condominium ownership is demonstrated.
- The project must follow all applicable state or local laws. The homeowners' association must be incorporated in the state where the project is located.
- Condo projects must have acceptable [insurance coverage](#).
- An environmental hazard assessment is required for condo projects if an environmental problem is identified by the client or Oaktree Funding through performance underwriting or due diligence. The solution must be deemed acceptable by Oaktree.
- Projects with pending or threatened litigation are typically ineligible. Litigation may be acceptable if it is determined to be minor and immaterial. See also [11.9.4 Non-Warrantable Condominiums](#).
- 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 or funded by Oaktree Funding within one project of 20% or 20 loans, whichever is less.
- The maximum loan concentration by an individual borrower in a particular condo development is 10%.
- High-Rise Condominiums and those in areas considered “over-built,” are subject to a reduction in max allowable LTV by 5%.

### 11.9.3 CONDOMINIUM PROJECT REVIEWS

A valid project review is required for all condominium transactions, along with a completed *Oaktree Funding Homeowners' Association Certification*. The project review methods below should be utilized to determine the acceptability of a condominium project: Condominium projects consisting of no more than 4 units do not require a project review, all other guidelines must be met. The HOA certification may not be greater than 120 days old at the time of closing.

The project review methods below should be utilized to determine the acceptability of a condominium project:

#### 11.9.3.1 PERS (PROJECT ELIGIBILITY REVIEW SERVICE)

PERS project approvals: <https://www.fanniemae.com/singlefamily/project-eligibility>

Projects with Fannie Mae PERS approvals are acceptable and can be found on the Fannie Mae website. Projects must also meet the [General Condominium Requirements](#) and may not be an [Ineligible Project](#). A PERS approval is valid for 18 months from the date of issue and must be valid as of the note date.

[New projects](#) are acceptable only with a PERS approval.

### 11.9.3.2 FHA APPROVED CONDOMINIUMS

FHA condo approvals: <https://entp.hud.gov/idapp/html/condlook.cfm>

Projects with FHA condo approvals are acceptable and can be verified on the HUD website. Projects must also meet the [General Condominium Requirements](#) and may not be an [Ineligible Project](#). An FHA condo approval must be valid as of the date of the note.

### 11.9.3.3 HOA CERTIFICATION REVIEW

For all established condominium projects without valid [PERS](#) or [FHA](#) approvals, or for projects that do not meet all the requirements of the various project review methods, an HOA Certification Review is required. Clients must review the completed *Oaktree Funding Homeowners' Association Certification* to ensure compliance with the following requirements:

- Established and New Condominium Projects are allowed (see restrictions below).
- New Condominium projects will only be allowed with a maximum LTV of 80% and:
  - At least 50% of all units in the subject phase must be sold or under contract.
  - All units must be completed in the subject phase.
  - Construction of the entire development is not required to be completed. There must be a future date noted when the management of the HOA will be transferred to all owners.
  - New Condo projects must be Primary Residence or 2<sup>nd</sup> homes for properties with no PERS or FHA approval.
  - The property must meet all other warrantable requirements. Incomplete condo conversions are not allowed.
  - At least 50% of the total units in the project must be conveyed to purchasers as primary or second homes.
- No more than 15% of the total units in a project may be 60 days or more past due on their HOA dues.

- No single entity, the same individual, investor group, partnership, or corporation may own more than 10% of the total units in the project. For projects with 1-4 total units, single entity ownership may not exceed 1 unit. For 5-20-unit projects, single entity ownership may not exceed 2 units.
- No more than 25% of the total square footage of the project may be used for commercial purposes.
- Mortgagee may not be responsible for more than the greater of 6 months or the maximum amount permitted under applicable state law of delinquent HOA dues. For condos in Florida, the first mortgagee’s liability for dues assessed prior to its acquisition of title is limited to the lesser of 12 months’ assessments or 1% of the original mortgage debt.
- All facilities related to the project must be owned by the unit owners or the HOA cannot be subject to a lease between the unit owners or HOA and another party.
- HOA certification reflects the funding of replacement reserves for capital expenditures and deferred maintenance that is at least 10% of the budget.

#### 11.9.4 NON-WARRANTABLE CONDOMINIUMS

Non-warrantable condominiums are allowed on an exception basis. A completed Oaktree Funding HOA Certification is required. See below chart for examples of characteristics that will be considered.

##### 11.9.4.1 NON-WARRANTABLE CONDO LTV RESTRICTIONS

Non-warrantable condominiums are eligible at a max LTV of 80% under the Non-Agency Advantage Program, and a max of 75% under the Investment Property Program. Condotels will be limited to 65% LTV.

##### 11.9.4.2 NON-WARRANTABLE CONDO ELEGIBILITY CRITERIA

NON-WARRANTABLE CONDOS	
CHARACTERISTIC	EXCEPTION CONSIDERATIONS
COMMERCIAL SPACE	Subject unit 100% residential. Commercial space in building/project < 50%. Any commercial must be “typical to the marketplace and have no negative impact on

	marketability. Commercial % determined by appraiser. Commercial entity cannot control HOA.
COMPLETION STATUS	The project, or the subject's legal phase along with other phases, must be complete. All common elements in the project or legal phase must be 100% completed. At least 50% must be sold or under a bona-fide contract.
CONDOTELS	True Condotels with onsite reservation desks are allowed at a max 65% LTV. Development must be nationally recognized chain (if not, secondary marketing must review and approve for exception).
DELINQUENT HOA DUES	No more than 20% of the total units in the project may be 60 days or more past due on the payment of condominium/association fees.
INVESTOR CONCENTRATION	Investor concentration in project up to 60%. Higher percentages may be considered under the Investment Property Program when an established history of a high percentage of rental units in the condo project can be demonstrated.
HOA CONTROL	The developer may be in control of the condominium association provided the Master Agreement provides for the homeowners to take control upon either a predetermined percentage of unit sales or within a defined time period.
HOA RESERVES	HOA Budget must include a dedicated line-item allocation to replacement reserves of at least 8% of the budget.
LITIGATION	Pending litigation may be accepted on a case-by-case basis. Litigation that involves structural issues, health and safety issues or items that will impact the marketability of the project will not be accepted.
NEW PROJECTS	** NOT ALLOWED ON NON-WARRANTABLE
SINGLE ENTITY OWNERSHIP	Single entity ownership in project up to 25% (limited to 15% for condotels)

### 11.9.5 CONDOMINIUM CONVERSIONS

A condominium conversion is the conversion of an existing building to a condominium project. Project conversions legally created in the past 3 years are not allowed.

### 11.9.6 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. A Homeowners' Association Certification is not required.

Appraisals for site condos are to be documented on FNMA Form 1004 when possible. Site condos completed on the condominium form will be considered when the appraiser notes that the property is a detached site condo and explains why the condo appraisal form was used. The appraiser should include an adequate description of the project, information about the homeowners' association fees, and note the quality of the project maintenance.

### 11.9.7 INELIGIBLE PROJECTS

- Projects comprised of manufactured homes.
- Projects with units used for 'live-work.'
- Projects managed and operated as a hotel or motel.
- Projects containing the word hotel or motel in the name.
- 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
- Continuing Care Retirement Communities or Life Care Facilities
- Multi-unit dwelling condos that permit an owner to hold title to more than one dwelling unit, with ownership of all his or her owned units evidenced by a single deed and financed by a single mortgage.
- Tenants in Common developments

# 12 PROPERTY INSURANCE

## 12.1 HAZARD INSURANCE

### 12.1.1 MINIMUM HAZARD INSURANCE COVERAGE

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 lesser of:

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

### 12.1.2 DETERMINING THE AMOUNT OF REQUIRED HAZARD COVERAGE

The following tables describes how to calculate the amount of required hazard insurance coverage:

DETERMINING HAZARD COVERAGE	
STEP	DESCRIPTION
1	Compare the insurable value of the improvements as established by the property insurer to the unpaid principal balance of the mortgage loan.
1A	If the insurable value of the improvements is less than the unpaid principal balance, the insurable value is the amount of coverage required.

<b>1B</b>	If the unpaid principal balance of the mortgage loan is less than the insurable value of the improvements, go to Step 2.
<b>2</b>	Calculate 80% of the insurable value of the improvements.
<b>2A</b>	If the result of this calculation is equal to or less than the unpaid principal balance of the mortgage, the unpaid principal balance is the amount of coverage required.
<b>2B</b>	If the result of this calculation is greater than the unpaid principal balance of the mortgage, this calculated figure is the amount of coverage required.

### EXAMPLES

CATEGORY	PROPERTY A	PROPERTY B	PROPERTY C
INSURABLE VALUE	\$90,000	\$100,000	\$100,000
UNPAID BALANCE	\$95,000	\$ 90,000	\$ 75,000
80% INSURABLE VALUE	—	\$ 80,000	\$ 80,000
REQUIRED COVERAGE	\$90,000	\$ 90,000	\$ 80,000
CALCULATION METHOD	Step 1A	Step 2A	Step 2B

#### 12.1.3 DEDUCTIBLE AMOUNT

The maximum allowable deductible for insurance covering a property 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.

#### 12.1.4 EVIDENCE OF HAZARD INSURANCE

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

- Policy
- Certificate of Insurance (COI)



- Insurance Binder

Evidence of Insurance must provide the following information:

- Names of borrowers reflect the same as the names on the note.
- Property address agrees with the note/security instrument.
- Mailing address is the same as property address.
- Policy Number
- Loan Number
- Name of insurance company
- Insurance Agent information
- Effective and expiration dates of coverage
- Premium Amount
- Coverage amounts and deductible.
- Loss payee clause as applicable

### 12.1.5 OPTIONAL COVERAGE

Hazard insurance policies may include optional coverage(s) which are acceptable but are not required. For example, a “homeowners” or “package” policy is acceptable if any part of the coverage that exceeds the required coverage is not obligated for renewal.

### 12.1.6 RATING REQUIREMENTS

The hazard insurance policy must be written by a carrier that meets at least one of the following requirements:

- Carriers rated by A.M. Best Company; Inc. must have:
  - a “B” or better Financial Strength Rating in Best’s Insurance Reports, or an “A” or better Financial Strength Rating and a Financial Size Category of “VIII” or
  - greater in Best’s Insurance Reports Non-US Edition
- Carriers rated by Demotech, Inc. must have an “A” or better rating in Demotech’s Hazard Insurance Financial Stability Ratings
- Carriers rated by Standard and Poor’s must have a “BBB” or better Insurer Financial Strength Rating in the Standard and Poor’s Ratings Direct Insurance Service

Policies underwritten by a state's Fair Access to Insurance Requirements (FAIR) plan or other state insurance plan are also acceptable, if it is the only coverage that can be obtained.

An insurance policy that includes either of the following endorsements will assure full insurable value replacement cost coverage:

- A Guaranteed Replacement Cost Endorsement (under which the insurer agrees to replace the insurable property regardless of the cost) and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement (which waives the requirement for coinsurance).
- A Replacement Cost Endorsement (under which the insurer agrees to pay up to 100% of the subject property's insurable replacement cost, but no more) and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement (which waives the requirement for coinsurance).

Unless a higher maximum amount is required by state law, the maximum deductible amount for policies covering the common elements in a PUD project is the lesser of \$10,000 or 5% of the policy face amount. However, for losses related to individual PUD units that are covered by the blanket policy for the project, the maximum deductible related to the individual unit may not exceed 5% of the face amount of the insurance policy. Funds to cover these deductible amounts should be included in the operating reserve account that is maintained by the homeowners' association.

## **12.2 CONDOMINIUM AND PUD PROJECT INSURANCE REQUIREMENTS**

### **12.2.1 MINIMUM HAZARD INSURANCE COVERAGE**

Insurance should cover 100% of the insurable replacement cost of the project improvements and common elements, including the individual units in the project.

If the subject property is an attached PUD or a condominium, the respective associations may acquire a blanket policy to cover the project. The entire project insurance policy should be reviewed to ensure the homeowners' association maintains a master or blanket type of insurance policy, with premiums being paid as a common expense. The policy must show the HOA as the named insured.

For PUD projects, individual insurance policies are also required for each unit. If the project's legal documents allow for blanket insurance policies to cover both the individual units and the common elements, blanket policies are acceptable in satisfaction of its insurance requirements for the units.

The policy must require the insurer to notify in writing the HOA (or insurance trustee) and each first mortgage loan holder named in the mortgage clause at least 10 days before it cancels or substantially changes a condo project's coverage.

### **12.2.2 HO-6 INSURANCE COVERAGE FOR CONDOMINIUMS**

If the unit interior improvements are not included under the terms of the condominium policy, the borrower is required to have a HO-6 hazard policy ("wall-in coverage"), which is sufficient to repair the condo unit to its condition prior to a loss claim event. Oaktree defaults to Fannie guidelines for HO-6 policies.

### **12.2.3 DEDUCTIBLE AMOUNT**

For policies covering the common elements in a PUD project and for policies covering condo projects, the maximum deductible amount must be no greater than 5% of the face amount of the policy.

For losses related to individual PUD units that are covered by the blanket policy for the project, the maximum deductible amount related to the individual unit should be no greater than 5% of the replacement cost of the unit. If, however, the policy provides for a 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.

For blanket insurance policies that cover both the individual units and the common elements, the maximum deductible amount related to the individual unit should be no greater than 5% of the replacement cost of the unit.

### **12.2.4 GENERAL LIABILITY COVERAGE**

Project liability insurance requirements are as follows:

- The homeowners' association must maintain a commercial general liability insurance policy for condo projects or Type F PUD projects, including all common areas and elements, public ways, and any other areas that are under its supervision.
- The insurance should cover commercial spaces that are owned by the homeowners' association, even if they are leased to others. The commercial general liability insurance policy should provide coverage for bodily injury and property damage that result from the operation, maintenance, or use of the project's common areas and elements.
- The amount of liability coverage should be at least \$1,000,000 for bodily injury and property damage for any single occurrence.

- The policy should provide for at least ten days' written notice to the owners' association before the insurer can cancel or substantially modify it. For condominium projects, similar notice must also be given to each holder of a first mortgage or share loan on an individual unit in the project.

An insurance policy that includes either of the following endorsements will assure full insurable value replacement cost coverage:

- A Guaranteed Replacement Cost Endorsement (under which the insurer agrees to replace the insurable property regardless of the cost) and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement (which waives the requirement for coinsurance); or
- A Replacement Cost Endorsement (under which the insurer agrees to pay up to 100% of the subject property's insurable replacement cost, but no more) and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement (which waives the requirement for coinsurance).

### **12.2.5 FIDELITY BOND COVERAGE**

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

## **12.3 FLOOD INSURANCE**

Flood insurance is required for any property located within any area designated by the Federal Emergency Management Agency (FEMA) as a Special Flood Hazard Area (SFHA). A SFHA is typically denoted as Flood Zone A or Zone V (coastal areas). Properties in Flood Zone A or V must be in a community which participates in the FEMA program to be eligible for financing.

### **12.3.1 FLOOD CERTIFICATE**

Determination whether a subject property is in a flood zone must be established by a Flood Certificate provided by the Federal Emergency Management Agency (FEMA). The appraisal report should also accurately reflect the flood zone.

The flood insurance requirement can be waived if:

- Subject property improvements are not in the area of Special Flood Hazard, even though part of the land is in Flood Zone A or V; or

- Borrower obtains a letter from FEMA stating that its maps have been amended so that the subject property is no longer in an area of Special Flood Hazard

### **12.3.2 MINIMUM FLOOD INSURANCE COVERAGE**

The minimum amount of flood insurance required for most first mortgages secured by 1-unit properties and individual PUD units is the lower of:

- 100% of the replacement cost of the insurable value of the improvements.
- the maximum insurance available from the National Flood Insurance Program (NFIP), which is currently \$250,000 per dwelling; or
- the unpaid principal balance of the mortgage

### **12.3.3 PROJECT FLOOD INSURANCE REQUIREMENTS**

The flood policy for a PUD or condominium project must cover any common element buildings and any other common property located in a SFHA. The amount of flood insurance coverage for a PUD or condo project should be at least equal the lesser of 100% of the insurable value of the facilities or the maximum coverage available under the appropriate National Flood Insurance Program (NFIP).

### **12.3.4 DEDUCTIBLE AMOUNT**

The maximum allowable deductible is the maximum available from the NFIP, which is currently \$10,000. The maximum allowed deductible for a PUD or condo project is \$25,000.

### **12.3.5 EVIDENCE OF FLOOD INSURANCE**

Flood insurance must be maintained throughout the duration of the loan. If final evidence of flood insurance is not available at closing, the following may be used:

- Completed and executed NFIP application with a copy of the borrower's premium check, the insurance agent's paid receipt, or the final settlement statement reflecting the flood insurance premium paid at closing.
- Completed and executed NFIP General Change Endorsement Form showing the assignment of the current flood insurance policy by the property seller to the borrower.
- Agent-executed NFIP Certification of Proof of Purchase of Flood Insurance

Evidence of Insurance must provide the following information:

- Names of borrowers reflect the same as the note.
- Property address agrees with the note/security instrument.
- Mailing address is the same as property address.
- Policy Number
- Loan Number
- Name of insurance company
- Insurance Agent information
- Effective and expiration dates of coverage
- Premium Amount and deductible
- Coverage amount
- Loss payee clause as applicable
- Signed and dated by agent.



# 13 TITLE INSURANCE

## 13.1 TITLE POLICY REQUIREMENTS

Loans must be covered by a title insurance policy that has been paid in full and is valid, binding, and remains in full force and effect.

Preliminary title must indicate that the final title policy will be issued after funding.

The title insurer must be qualified to do business in the state where the subject property is located. The title insurer and policy must conform to Fannie Mae/Freddie Mac requirements.

### 13.1.1 BORROWER INFORMATION

All borrower names must be indicated on the title commitment. If the borrower's marital status appears to be different than on 1003, the discrepancy must be addressed. The property seller's name must be cross referenced to the purchase agreement and valuation chain of title.

### 13.1.2 COVERAGE AMOUNT

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

### 13.1.3 INSURED NAME

Title policy must ensure the client as its name appears in the security instrument. It must also include the language "its successors and assigns as their interest may appear."

### 13.1.4 AGE OF REPORT

The preliminary title report/title commitment should be dated no later than 120 days prior to closing. Any requirements by title, such as Statements of Information or copies of trust agreements, must be cleared prior to closing.

### 13.1.5 VESTING

Final title policy vesting should reflect the name(s) of the individual borrower(s). See [4.12 Vesting and Ownership](#).

### 13.1.6 GAP COVERAGE

The preliminary title report/title commitment must be updated after closing in writing to ensure the mortgage is in first lien position and documented through one of the following:

- Final title policy
- Title bring-down search representing the period from the original search through the time the mortgage is recorded.
- Gap coverage from the time of the original search until the mortgage is recorded, when the mortgage is not recorded at the time of diligence.

### 13.1.7 TITLE POLICY FORMS

The final title policy must be written on one of the following forms:

- 2006 American Land Title Association (ALTA) standard form
- ALTA short form
- ALTA form with amendments required by state law in states in which standard ALTA forms of coverage are not used or in which the 2006 ALTA forms have not yet been adopted, provided those amendments are acceptable to Fannie Mae/Freddie Mac.

### 13.1.8 TITLE POLICY UNDERWRITER

A nationally recognized insurer or reinsurer which has received one of the following ratings must have underwritten the title insurance policy:

- BBB or better rating from Duff and Phelps Credit Rating Company
- C or better rating from LACE Financial Corporation
- Baa or better rating from Moody's Investors Service
- BBB or better rating from Standard and Poor's, Inc.
- A Financial Stability Rating of S (Substantial) or better, or a Statutory Accounting Rating of C (Average) or better from Demotech, Inc.



## 13.2 TITLE COMMITMENT REVIEW

### 13.2.1 CHAIN OF TITLE

All files are to contain a 24-month title history from an acceptable source. Transfer date, price, and buyer and seller names on any title transfers that occurred within the previous 24 months should be provided. The vesting history should be reviewed for inconsistencies or any indication of flipping activity.

### 13.2.2 TITLE EXCEPTIONS

The following items are allowable title exceptions:

- Customary public utility subsurface easements: the location of which are fixed and can be verified. The exercise of rights of easement will not interfere with use and enjoyment of any improvement of the subject property or proposed improvements upon which the appraisal or loan is based.
- Above-surface public utility easements that extend along one or more property lines for distribution purposes, or along the rear property line for drainage, provided they do not extend more than 12 feet from the subject property lines and do not interfere with any of the buildings or improvements, or with the use of the subject property; and public utility restrictions, provided their violation will not result in the forfeiture or reversion of title or a lien of any kind for damages, or have an adverse effect on the fair market value of the subject property.
- Mutual easement agreements that establish joint driveways or party walls constructed on the subject property and on an adjoining property, provided all future owners have unlimited and unrestricted use of them.
- Encroachments on one foot or less on adjoining property by eaves or other overhanging projections or by driveways provided there is at least a 10-foot clearance between the buildings on the subject property and the property line affected by the encroachments.
- Encroachments on the subject property by improvements on adjoining property provided these encroachments extend one foot or less over the property line of the subject property, have a total area of 50 square feet or less, do not touch any buildings, and do not interfere with the use of any improvements on the subject property or the use of the subject property not occupied by improvements.
- Encroachments on adjoining properties by hedges or removable fences.
- Liens for real estate or ad valorem taxes and assessments not yet due and payable.

- Outstanding oil, water, or mineral rights if they do not materially alter the contour of the property or impair its value or usefulness for its intended purposes.

### 13.2.3 SURVEY REQUIREMENTS

If the title company requires a survey or plat map due to an exception noted on the title policy, a copy must be submitted in the loan file. Surveys must be certified, dated, and signed by the licensed civil engineer or registered surveyor performing the survey. Unimproved land surveys are not acceptable.

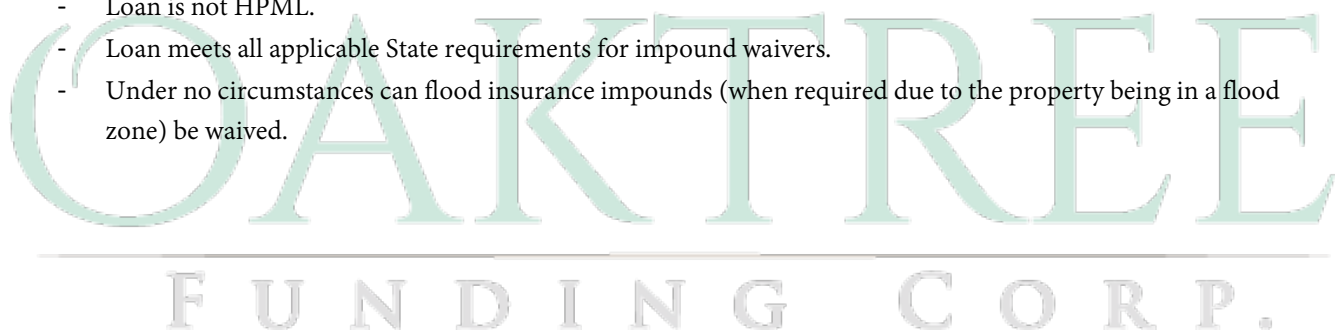
Surveys should be reviewed for easements, encroachments, flood zone impacts, and possible boundary violations, considering the location of the dwelling on the property.

### 13.3 SERVICING

All loans are to be serviced by a third-party servicer approved by Oaktree Funding.

Borrowers are required to establish initial and monthly escrow for annual taxes, hazard insurance, flood insurance (if applicable), and HO-6 insurance coverage (if applicable), unless otherwise specified by applicable state law. One twelfth (1/12) of the annual premiums are to be paid with the principal and interest payments. Borrowers who do not desire an impound account may request it be waived. Oaktree will allow the waiver of impounds if:

- LTV is equal to or less than 80% (90% in California)
- Loan is not HPML.
- Loan meets all applicable State requirements for impound waivers.
- Under no circumstances can flood insurance impounds (when required due to the property being in a flood zone) be waived.



# 14 DSCR PROGRAM

The Investor Advantage Program is designed for investment, non-owner-occupied loans that are designated for business purposes only. This program does not require disclosure of employment or income and is not to be confused with investment property loans qualified under any other Program. The following requirements apply to DSCR Investor loans only.

Section 14 outlines requirements specific to the DSCR Investor Program. Additional requirements are found throughout the Oaktree Funding Loan Eligibility Guidelines.

## 14.1 OWNERSHIP OF PRIMARY RESIDENCE

All borrowers must presently own their primary residence. This requirement may be waived if the borrower can clearly demonstrate that the subject property is rental in nature and inferior in size and quality to their primary residence (leased or owned). The borrower must be renting another residence and the lease must continue for the foreseeable future (minimum of 6 months). Exceptions will be considered on a case-by-case basis when the borrower lives rent free in a home owned or leased by their Spouse and/or parents. The borrower is required to provide an adequate explanation with supporting documentation on why they live and plan to remain in their current primary residence. In these instances, the subject property should not be located within 25 miles of the current primary residence.

## 14.2 LEASE REQUIREMENTS

Oaktree requires that the lower of the monthly lease amount and the Market Rent be used to calculate the DSCR percentage. A copy of the lease is generally not required however; when occupancy concerns arise additional items may be requested (including a copy of the lease, proof of receipt of rent, utility bills etc.).

## 14.3 HOME SHARE STYLE SHORT TERM RENTALS

Short term rentals through companies such as VRBO, Airbnb, or Homeaway are eligible for qualification under the DSCR program. DSCR will be calculated based on the market rent as provided by the appraiser. Oaktree will allow the higher short term monthly rent to be used to calculate the DSCR percentage when 12-months proof of rent is provided in

the form of a 12-month ledger from the company marketing the property (i.e., VRBO, Airbnb, or Homeaway, etc.). The 12-month rent total will be averaged monthly to calculate the DSCR. Additional documentation may be required. A ledger is only required if the short-term rental income will be used to qualify in lieu of the appraiser's opinion of market rent.

## **14.4 INCOME OPTIONS**

### **14.4.1 DSCR**

A Debt-Service Coverage Ratio (DSCR) may be calculated for the subject property to take advantage of expanded LTVs. See the Investor Advantage Product Matrix for available LTVs and corresponding DSCR options. The DSCR calculation is as follows:

Fully Amortized Transactions: Debt-Service Coverage Ratio = Gross Income / Proposed PITIA

Interest Only Transactions: Debt-Service Coverage Ratio = Gross Income / Proposed ITIA

To calculate gross income, use the lower of the (a) executed lease agreement or (b) market rent from appraisal form 1007. If the executed lease agreement reflects a higher monthly rent, it may be used in the calculation when evidence of receipt of the higher amount for the 3 most recent, consecutive months is provided.

All loans must have a Debt-Service Coverage Ratio  $\geq 0.75$  as per the matrix.

### **14.4.2 LONG TERM ADU RENTAL INCOME ON DSCR TRANSACTIONS**

Long term rental income from an ADU on the subject property is eligible for use when the following terms are met:

- ADU must meet minimum property size of 600 sq ft
- Appraiser must provide at least 2 rental comparables with ADU's that are being rented. The 1007 must breakdown the difference in rent between the main dwelling and the ADU. Oaktree will use the lower of the Market Rent (Main Dwelling + ADU) or the Current Leases
- Lease for the ADU and main dwelling will be required when the current rent for both dwellings is being used in lieu of the Market Rent. Proof of 6 months receipt is required.

\*\* Rental income can be used for no more than One ADU

**\*\*\*No Short-term rental income can be used14.2 NO RATIO**

No Ratio DSCR loans are not permitted.

#### **14.4 RENT LOSS INSURANCE**

Rent loss insurance for the subject property is required and must equal at least 6 months of local average monthly rents.

Blanket policies covering the subject property are permitted.

#### **14.5 DSCR INVESTOR FORMS**

For the DSCR Investor Program loans, the following forms are required:

- Business Purpose & Occupancy Affidavit (all borrowers are required to sign prior to close to declare that the property is, or will be, for commercial business or investment purpose only) [www.oaktreewholesale.com/forms](http://www.oaktreewholesale.com/forms) for details.
  - Further, by signing this form the borrower will attest that, “Neither I nor any family member intend or expect to occupy the Property at any time. I will not, under any circumstances, occupy the Property at any time while the Loan remains outstanding. In addition, I will not claim the Property as my primary or secondary residence for any purposes for the duration of my Loan. I now reside, and for the duration of my Loan will continue to reside, elsewhere.”
- Personal Recourse is required
- Guaranty (if applicable)
- 1-4 Family Rider/Assignment of Rents (FNMA Form 3170)

## **15 FORMS**

The most up-to-date versions of all Oaktree Funding forms can be accessed through the Oaktree Funding Wholesale web page under *Forms*.

The following forms can be found under *Forms* via the Oaktree Funding Website at [www.oaktreewholesale.com/forms](http://www.oaktreewholesale.com/forms)

- Alternative Analysis Form
- Benefit to Borrower Form
- Homeowners’ Association Form / Condo Cert

- Business Purpose and Occupancy Affidavit
- Guaranty



# 16 COVID-19 ADDENDUMS

In response to the ongoing Covid-19 Pandemic Oaktree Funding has instituted the following overlays on all Non-Agency loans to be funded or reviewed for purchase.

Borrowers who have requested forbearance across either mortgage or consumer debt since March 1<sup>st</sup>, 2020, must provide a LOE explaining the reason for forbearance and provide payment history.

Borrowers who obtained mortgage forbearance after March 1<sup>st</sup>, 2020, but nonetheless made all their payments and stayed current (MBA methodology) throughout the forbearance plan will not have any restrictions regarding qualifying. Borrowers who “opted out” of their mortgage forbearance plan without missing any payments (stayed current per MBA methodology) will not have any restrictions.

Borrowers who obtained mortgage forbearance on any mortgage, including co-signed loans after March 1<sup>st</sup>, 2020, may be eligible if the following requirements are met.

- Borrowers in a Repayment Plan or Payment Deferral Plan must be performing under the agreement s and have made three consecutive timely payments as per terms of repayment plan or deferral agreement
- Borrowers who received a Term Modification for the length of the forbearance period will be eligible after they have made three consecutive payments. Term Modifications in excess of the forbearance period will be ineligible.
- Borrowers who paid a “reinstatement” will be eligible. Oaktree must source the payment of the reinstatement and will require 60 days of asset statements. Funds used must be borrower owned funds. Loans and/or gifts are not allowed.
- Borrowers who received a Rate Modification, Principal Forgiveness Modification, or any modification besides the extension of Term to match the missed forbearance payments will not be eligible.

If a borrower was terminated or furloughed from work for a period equal to or greater than 6 months, Oaktree Funding is requiring borrowers be employed for at least 60 days with income consistent to previous earnings prior to be terminated. Borrowers working in a new line of W2 employment due to a covid layoff must be employed for at least 12 months in that new job.

Under the CARES Act, PPP loan terms allow deferred payments for a specified period. No payments would be expected to be included in the borrower's liabilities at this time. Once it has been determined that any portion of the PPP loan must be repaid, follow requirements for loans paid by a business. Deposits from PPP or SBA loans cannot be used for income deposits, cash to close or reserves. These funds must be deducted from eligible funds. Borrowers must explain why they obtained these loans and explain if their business has any existing hardships.

Oaktree Funding is following standard FNMA guidelines with respect to all other aspects of income and employment considering the ongoing Covid-19 pandemic and will update our internal guidelines and operations when and if necessary.

