



MERCHANTS PREMIUM PROGRAM: UNDERWRITING GUIDE

AUS Jumbo ELITE
High Balance ELITE
Conforming ELITE

MARCH 10, 2026
v.2.4

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MERCHANTS PREMIUM PROGRAM UNDERWRITING INTRODUCTION

The purpose of credit and property underwriting is to ensure that each loan meets Merchants Bank quality standards. A loan meets Merchants Bank underwriting quality standards if the borrower's credit and capacity to make payments and the quality of the collateral are consistent with the mortgage loan program under which the loan is sold to Merchants Bank. Loans are underwritten to standards consistent with the expectation of timely repayment and the represented value of the subject property is expected to reflect accurately its market value at consummation.

Regardless of underwriting method, additional information may be requested at the discretion of the underwriter. Additionally, all documentation related to income, assets and credit provided in the closed loan package must be reviewed prior to loan consummation for the file to be considered QM compliant.

All references to "Agency guidelines" are based on the specific Agency guidelines as of the date of the loan lock. Sellers should refer to the Agency guidelines for any topic not specifically addressed in these Guidelines.

SECTION ONE: GENERAL

Section 1.01 Matrices

AUS Jumbo Elite Fixed 30/15

| Occupancy | Transaction Type | Property Type | Maximum LTV/ CLTV/HCLTV | Maximum Loan Amount | Minimum Credit Score | Minimum Reserves | Maximum DTI |
|-------------|------------------------|-------------------------|----------------------------|------------------------|-------------------------|---------------------|-------------|
| Primary | Purchase/Rate and Term | 1 unit, SFR, PUD, Condo | 80% | \$1,000,000 | 680 | 6 mos | 45/49.99%** |
| | | | 89.99%* | \$1,000,000 | 720 | 12 mos | 38% |
| | | | 80% | \$1,500,000 | 700 | 12 mos | 45/49.99%** |
| | | | 80% | \$2,000,000 | 720 | 12 mos | 45/49.99%** |
| | | | 80% | \$2,500,000 | 720 | 18 mos | 45% |
| | | | 80% | \$3,000,000 | 740 | 18 mos | 45% |
| Primary | Purchase/Rate and Term | 2 unit | 80% | \$1,000,000 | 700 | 12 mos | 45/49.99%** |
| | | | 75% | \$1,500,000 | 700 | 12 mos | 45/49.99%** |
| | | | 65% | \$1,750,000 | 700 | 12 mos | 45/49.99%** |
| | | | 60% | \$2,000,000 | 700 | 12 mos | 45/49.99%** |
| Primary | Cash-Out Refinance† | 1 unit, SFR, PUD, Condo | 75% | \$1,000,000 | 680 | 6 mos | 45% |
| | | | 75% | \$1,500,000 | 700 | 12 mos | 45% |
| | | | 75% | \$1,750,000 | 720 | 12 mos | 45% |
| | | | 70% | \$2,000,000 | 720 | 12 mos | 45% |
| Primary | Cash-Out Refinance† | 2 unit | 70% | \$1,000,000 | 700 | 12 mos | 45% |
| | | | 55% | \$1,500,000 | 700 | 12 mos | 45% |
| Second Home | Purchase/Rate and Term | 1 unit, SFR, PUD, Condo | 80% | \$1,000,000 | 700 | 9 mos | 45/49.99%** |
| | | | 80% | \$1,500,000 | 720 | 12 mos | 45/49.99%** |
| | | | 70% | \$2,000,000 | 720 | 12 mos | 45/49.99%** |
| | | | 60% | \$2,250,000 | 740 | 18 mos | 45% |
| | | | 60% | \$2,500,000 | 740 | 18 mos | 45% |
| | | | 60% | \$3,000,000 | 740 | 24 mos | 45% |
| Second Home | Cash-Out Refinance† | 1 unit, SFR, PUD, Condo | 75% | \$1,000,000 | 700 | 12 mos | 45% |
| | | | 70% | \$1,500,000 | 700 | 12 mos | 45% |
| | | | 70% | \$2,000,000 | 740 | 18 mos | 40% |

* > 80 LTV is eligible for 30 Year Fixed Only. MI not required. No subordinate financing allowed.

** > 45 to 49.99 requires 720 minimum fico, ≤ 80 LTV, and ≤ \$2M purchase/rate and term only.

† Maximum Cash-Out is \$500,000. Properties owned free and clear are ineligible for cash out refinance.

DU Approve/Ineligible or LP Accept/Ineligible (due to loan amount only).

The loan size minimum for Jumbo Elite is the greater of the baseline conforming limit or the loan limit for the high cost county/MSA plus \$1.

Section 1.01 Matrices (cont.)

Conforming Elite Fixed 30/15

| Occupancy | Transaction Type | Property Type | Maximum LTV/ CLTV/HCLTV | Conforming Balance Maximum | Minimum Credit Score | Minimum Reserves | Maximum DTI |
|-------------|------------------------|---------------|----------------------------|-------------------------------|-------------------------|---------------------|-------------|
| Primary | Purchase/Rate and Term | 1 unit | 80% | \$832,750 | 680 | 6 mos | 45/49.99%** |
| | | 1 unit | 89.99%* | \$832,750 | 720 | 12 mos | 38% |
| | | 2 unit | 80% | \$1,066,250 | 700 | 12 mos | 45/49.99%** |
| Primary | Cash-Out Refinance† | 1 unit | 75% | \$832,750 | 680 | 6 mos | 45% |
| | | 2 unit | 70% | \$1,066,250 | 700 | 12 mos | 45% |
| Second Home | Purchase/Rate and Term | 1 unit | 80% | \$832,750 | 700 | 9 mos | 45/49.99%** |
| | Cash-Out Refinance† | 1 unit | 75% | \$832,750 | 700 | 12 mos | 45% |

*> 80 LTV is eligible for 30 Year Fixed Only. MI not required. No subordinate financing allowed.
 **>45 to 49.99 requires 720 minimum fico, ≤80 LTV, and ≤\$2M purchase/rate and term only.
 †Maximum Cash-Out is \$500,000. Properties owned free and clear are ineligible for cash out refinance.
 All loans must receive AUS DU Approve/Eligible or LP Accept/Eligible.
 Property Inspection Waivers are not allowed.
 \$400,000 is the minimum loan amount.
 Conforming loan limit is the maximum balance.
 Secondary Valuation rules apply - see guidelines.

High Balance Elite Fixed 30/15

| Occupancy | Transaction Type | Property Type | Maximum LTV/ CLTV/HCLTV | Maximum Loan Limit*** | Minimum Credit Score | Minimum Reserves | Maximum DTI |
|-------------|------------------------|---------------|----------------------------|--------------------------|-------------------------|---------------------|-------------|
| Primary | Purchase/Rate and Term | 1 unit | 80% | \$1,000,000 | 680 | 6 mos | 45/49.99%** |
| | | 1 unit | 89.99%* | \$1,000,000 | 720 | 12 mos | 38% |
| | | 1 unit | 80% | \$1,249,125 | 700 | 12 mos | 45/49.99%** |
| | | 2 unit | 80% | \$1,000,000 | 700 | 12 mos | 45/49.99%** |
| | | 2 unit | 75% | \$1,599,375 | 700 | 12 mos | 45/49.99%** |
| Primary | Cash-Out Refinance† | 1 unit | 75% | \$1,000,000 | 680 | 6 mos | 45% |
| | | 1 unit | 75% | \$1,249,125 | 700 | 12 mos | 45% |
| | | 2 unit | 70% | \$1,000,000 | 700 | 12 mos | 45% |
| | | 2 unit | 55% | \$1,599,375 | 700 | 12 mos | 45% |
| Second Home | Purchase/Rate and Term | 1 unit | 80% | \$1,000,000 | 700 | 9 mos | 45/49.99%** |
| | | 1 unit | 80% | \$1,249,125 | 720 | 12 mos | 45/49.99%** |
| | Cash-Out Refinance† | 1 unit | 75% | \$1,000,000 | 700 | 12 mos | 45% |
| | | 1 unit | 70% | \$1,249,125 | 700 | 12 mos | 45% |

*> 80 LTV is eligible for 30 Year Fixed Only. MI not required. No subordinate financing allowed.
 **>45 to 49.99 requires 720 minimum fico, ≤80 LTV, and ≤\$2M purchase/rate and term only.
 †Maximum Cash-Out is \$500,000. Properties owned free and clear are ineligible for cash out refinance.
 Loan limits are subject to local County limits and may not exceed Maximum Loan Limit listed.
 All loans must receive AUS DU Approve/Eligible or LP Accept/Eligible.
 Property Inspection Waivers are not allowed.
 The baseline conforming loan limit plus \$1 is the minimum balance accepted (\$832,751 for 1 unit and \$1,066,251 for 2 unit).
 Loan must not exceed the loan limit for the high cost county/MSA in which the property is located.
 Secondary Valuation rules apply. Please see guidelines.

Section 1.01 Matrices (cont.)

| | |
|---|---|
| Ability to Repay/QM | All loans must meet the Ability to Repay and Qualified Mortgage standards set forth in General QM Loan Definition of Reg. Z, effective April 1 2022, including the Safe Harbor Verification provisions, as codified in the official commentary to Regulation Z, comment 43(e)(2)(v)(B)-3. |
| Age of Documents | For new and existing construction, credit documents must be no more than 4 months old (DU) or 120 days (LPA) on the date the note is signed, including credit reports and employment, income and asset documents. Preliminary Title Policies must be no more than 90 days old on the date the note is signed. |
| Appraisals | All appraisals must comply with applicable regulations and standards, including but not limited to USPAP, FIRREA, AIR, and HVCC compliance. One full appraisal for transactions on loan amounts ≤ \$2,000,000. Two full appraisals for loan amounts > \$2,000,000. Property inspection waivers are not eligible. Unpermitted additions are not eligible. |
| Secondary Valuations | All files with a Collateral Underwriter (CU) or Loan Collateral Advisor (LCA) score > 2.5, must contain a secondary valuation product. A CDA obtained from Clear Capital is required. It is not acceptable to interchange CU/LCA scores. Fannie Mae loans require a CU score and Freddie Mac loans require a LCA score. |
| AUS | Loans must be underwritten through DU or LP. Approve/Ineligible or Accept/Ineligible due to loan amount only. High Balance and Conforming must be AUS Approve/Eligible or Accept/Eligible. Manual Underwrite is not permitted. |
| Lost Note Affidavits | Lost Note Affidavits not allowed. |
| Cash Out | Maximum Cash-Out of \$500k for refinances only. Properties owned free and clear are ineligible for cash out refinance. |
| Escrow Holdback | Escrow Holdbacks are eligible only if the funds have been disbursed and a completion certificate has been obtained prior to delivery of loan to Merchants Bank. |
| Escrows/Impounds | Escrow for taxes and insurance are required above 80% LTV, or as required by applicable state law. |
| High Cost/ High Priced | High-Cost loans are ineligible. Higher Priced Mortgage loans (HPML) transactions are ineligible. Higher Priced Covered Transactions (HPCT) are ineligible. |
| State Restrictions | Texas 50(a)(6) refinanced mortgages are not eligible. State of New York is also ineligible. |
| Multiple Properties Financed/Owned | Follow agency requirements. |
| Fraud Report | Complete report provided by seller checking all parties associated with a transaction. All Borrowers, Employer, Appraiser, Appraisal Company, Title Company, Title Agent, Underwriter, Buyer Real Estate Agent, Seller Real Estate Agent, Loan Processor, Loan Officer, Closer/Closing Attorney. |
| Credit | Minimum 7-year seasoning on all major derogatory credit events including bankruptcy, foreclosures, Deed-in-Lieu of Foreclosure, Pre-foreclosure Sale (Short Sale), or Mortgage Charge Off. Merchants Bank requires a minimum of two credit scores per borrower. Borrowers who do not meet the minimum credit score and minimum trade line requirements are considered "non-traditional" and are not eligible for sale to Merchants Bank. The lowest mid-score(s) will be the qualifying credit score. Should a borrower have two credit scores, the lower of the two will be considered the borrower's qualifying credit score. Housing payment delinquency history to show 0*30 days in the last 24 months, 0*60 days in the last 24 months and 0*90 days in the last 24 months. |

Section 1.01 Matrices (cont.)

| | |
|----------------------------------|---|
| Eligible Property Types | <ul style="list-style-type: none"> • Single Family Detached Single Unit • Single Family Attached Single Unit • 2 Unit Attached • Condominiums – Warrantable and Agency Eligible • PUD's |
| Ineligible Property Types | <ul style="list-style-type: none"> • Mobile homes • Condotels • Coops • Non-warrantable Condos • Unimproved Land • Land Trusts • Condition Rating of C5 or C6 • Properties in Lava Zone 1 or 2 • Working farms or ranches • Timeshares • Manufactured Homes • Hud-184 Mortgages <p>See Product Guidelines for more information.</p> |
| Ineligible Borrowers | Non-Permanent Resident Aliens, Individuals classified under Diplomatic Immunity, Foreign Nationals with no residency status, Temporary Protected Status, Deferred Enforced Departure, or Humanitarian Parole are considered ineligible for sale to Merchants Bank. |
| Rural Properties | Maximum 40 acres. Properties over 20 acres- reduce guideline maximum LTV by 10%. See Product Guidelines for details. |
| First Time Home Buyer | FTHB's are allowed, capped at \$1.5m loan size. Late rental payments in previous 24 months not allowed. |
| Declining Market | For properties located within a declining market, maximum LTV/CLTV will be decreased by 10%. |
| Seasoning | Seasoned loans are not eligible for purchase by Merchants without the approval of the Lock Desk. Seasoned Loans are Loans delivered 20 days or more beyond the Closing date. If approved the Lock Desk will determine pricing. |
| Temporary Buydown | Currently not allowed. |
| Payment Recast | Not allowed. |
| Terms | Currently offer 30 year and 15 year terms only. |

Section 1.02 Eligibility

Merchants Bank will not purchase mortgage loans if any company or individual who is a material party to the mortgage loan transaction is listed on the Department of Housing and Urban Development (HUD) Limited Denial of Participation List, Office of Foreign Assets Control (OFAC), Specially Designated Nationals and Blocked Persons List, the Freddie Mac Exclusionary List (if the Seller is a Freddie Mac approved Seller/Service with access to such list), or the General Services Administration (GSA) Excluded Party List System. All lists must be checked for all parties to the transaction. If any party's name appears on any list, the mortgage loan is not eligible for purchase by Merchants Bank.

Section 1.03 Loan Application

The Fannie Mae/Freddie Mac Uniform Residential Loan Application must be used, and the loan application must be complete, including without limitation:

- A full two-year history of employment/income, residency and all personal information for each borrower. If a borrower's employment history includes unemployment or insurance benefits, the application must reflect at least two years of previous employment, therefore covering a longer period of time.
- The Declarations Section must be answered for each borrower.
- The method of taking the application including face-to-face, by telephone, by fax or mail, by email or the Internet.
- The Loan Originator's information, including name, telephone, and NMLS number must be completed.

Section 1.03 Loan Application (cont.)

- The Borrower's demographic information must be completed.
- The initial application must be signed and dated by the Loan Originator and all Borrowers.

All loan applications must be reviewed by the Seller for reasonableness as part of the underwriting process, including without limitation:

- The feasibility of occupancy claims, and the overall financial picture of the borrowers must be reasonable.
- When conflicting information exists between or within documents, an adequate explanation must be provided, documented, and included in the mortgage loan file.
- All documents in the mortgage loan origination file that are relevant to underwriting must be reviewed by the Seller for signs of alteration or fabrication.

The final application must be signed and dated by all borrowers, and comply with the requirements set forth above, including without limitation:

- The borrower's complete and accurate financial information relied upon by the underwriter.
- All debt incurred during the application process and through loan closing must be disclosed on the final application.
- A borrower's credit profile may be established by one of the following methods:
 - Submitting the loan to Desktop Underwriter.
 - Submitting the loan to Loan Product Advisor.

Section 1.04 Identity Verification

The identity of each borrower whose credit is used for loan qualification must be confirmed in accordance with the applicable Agency guidelines unless otherwise stated within this guide. (As used herein, "Agency" refers to Fannie Mae and Freddie Mac as those terms are defined in the Seller's Guide.)

Section 1.05 Social Security Number Violations

- Evidence of a valid Social Security number is required for all borrowers. Any Social Security number discrepancies that are identified must be resolved.
- Loans to borrowers who have been issued an Individual Tax Identification Number (ITIN) in lieu of a Social Security number are ineligible for sale to Merchants Bank.

Section 1.06 Electronically Signed Documentation

For all Mortgage Loans, Electronic Signatures are acceptable on all documentation except on the Mortgage, the Mortgage Note, and any Power of Attorney (unless expressly permitted under applicable state law). All Electronic Signatures must comply with applicable federal and state law regarding enforceability. Documentation notarized via an e-notary service is ineligible as a replacement for traditional notary documents.

Documents on which Merchants Bank accepts electronic signatures include, but are not limited to:

- Purchase Contracts.
- Appraisal Reports.
- Origination Documentation.

Section 1.07 Miscellaneous Closing and Servicing Procedures

A. Leaseback

Follow agency 60-day rule.

B. Powers of Attorney

Merchants Bank will allow the use of a specific POA document, provided applicable Agency guidelines are followed. See additional restrictions in Section 2.07.

C. Non-borrowing Spouse

A Non-Borrowing spouse or domestic partner who has an interest in the subject property must follow all applicable state laws to waive any property rights he/she may have by virtue of being the owner's spouse.

Section 1.07 Miscellaneous Closing and Servicing Procedures (cont.)

D. Escrow for Postponed Improvements

Currently not permitted.

Section 1.08 Escrows/Impounds

Escrow or impounds are defined as all funds collected by a mortgagee on a mortgage loan for the servicer to cover expenses of the borrower that are required to be paid under the security instrument. The funds may include, but are not limited to, taxes, homeowners association charges, special assessments, water, sewer, and other governmental impositions or charges that are or may become liens on the subject property prior to that of the Mortgage Loan, as well as hazard, flood, and premiums.

An escrow of funds for the payment of property taxes, hazard insurance, flood insurance, and HO-6 is required if LTV is greater than 80.

- A renewal policy is required for hazard and flood insurance policies expiring within 60 calendar days from the loan closing.
- Two months of escrow is required on all loans unless escrows have been waived or if otherwise mandated by federal or state law.
- Escrow of the HO-6 policy is not required if coverage is for personal contents only.
- If property taxes are due within 60 calendar days of the loan closing, the Closing Disclosure(s) should reflect the amount sufficient for the Seller to pay the taxes. Property taxes which are delinquent may not be paid with funds from the transaction and must be paid at time of consummation.
- Escrow of premiums and fees for flood insurance is required for all mortgage loans as mandated by the Flood Disaster Protection Act of 1973, as amended. In conclusion, all monthly PMI and flood insurance premiums must be escrowed, no exceptions.

Section 1.09 Escrows/Impound Waiver

- Mortgage loans with escrow waivers are eligible for sale to Merchants Bank.
- Escrow waivers for homeowner's insurance or property taxes are eligible, except as to premiums and fees for flood insurance as mandated by the Flood Disaster Protection Act of 1973, as amended.
- Partial escrow waivers for the escrow of homeowner's insurance or property taxes only, are acceptable provided all other parameters allowing for an escrow waiver are met.

Section 1.10 Fraud Reports

Fraud Report Requirement for Loan Purchase by Merchants Bank

All loans purchased by Merchants Bank must include a Fraud Report. It is the Seller's responsibility to thoroughly review the report, identify any potential issues or risks, and address them appropriately. This may be done by:

- Providing a cleared Fraud Report with supporting documentation and comments, or
- Supplying documentation that explains why specific alerts are not applicable, along with detailed notes that clarify how the supporting documentation resolves the alerts when the report itself cannot be cleared.

Each Fraud Report must list a minimum set of verified participants involved in the transaction. These participants must be vetted in accordance with Section 1.02 of the underwriting guidelines. Verified parties should include, but are not limited to:

- All borrowers
- Appraiser(s)
- Loan Originator
- Seller (if applicable)
- Listing Agent (if applicable)
- Selling Agent (if applicable)
- Processor
- Underwriter
- Closer
- Attorneys

Section 1.10 **Fraud Reports (cont.)**

- Title Company
- Title Agent
- Appraisal Company

The above should be clear in OFAC-SDN, SAM-EPLS, HUD-LDP, and Freddie Mac Exclusionary list if you are a seller servicer.

SECTION TWO: THE BORROWER

Section 2.01 Borrower Types

The loan originator must have conducted all origination and underwriting procedures without regard to the borrower's race, color, religion, national origin, age, sex, marital status, handicap, income derived from a public assistance program, or status in any other class of persons protected under any applicable federal, state or local law.

- Any person signing an application for a loan is a borrower. All borrowers must sign the Mortgage Note.
- A borrower must be an individual for certain permitted trusts as identified in Section 2.04. Non-individual legal entities, including but not limited to corporations, general partnerships, limited partnerships, real estate syndications, blind trusts and investment trusts, are not eligible.
- Borrowers must meet credit and program eligibility requirements of Merchants Bank and the applicable Agency, as set forth in these guidelines.
- Inter Vivos Revocable Trust requirements are permitted and must meet the eligibility and documentation requirements as determined by the applicable Agency guidelines.

Section 2.02 Non-Occupant Co-Borrower, Guarantor, and Co-Signer

Non-Occupant co-borrowers are not allowed.

Section 2.03 Citizenship Requirements

A. U.S. Citizens

U.S. Citizens are eligible borrowers.

B. Non-U.S. Citizens

a. Permanent Resident

A permanent resident is a non-U.S. citizen who is legally eligible to maintain permanent residency in the U.S. and holds a Permanent Resident card. A permanent resident is an eligible borrower, provided that legal residency is documented according to the applicable Agency requirements. Please see www.uscis.gov for more information.

b. Non-Permanent Resident Aliens

Loans which include a borrower with a residency status of non-Permanent resident are not eligible for sale to Merchants Bank.

c. Other Residency Statuses

Individuals classified under Diplomatic Immunity, Foreign Nationals with no residency status, Temporary Protected Status, Deferred Enforced Departure, or Humanitarian Parole are considered ineligible for sale to Merchants Bank.

Section 2.04 Loans to Trust

Inter Vivos Revocable Trust

- An inter vivos revocable trust (a "living trust") is a trust created by an individual during his/her lifetime and become effective during the creator's lifetime. An inter vivos revocable trust can be changed or canceled by its creator at any time and for any reason during the creator's lifetime.
- The inter vivos revocable trust must meet the eligibility and documentation requirements as determined by the applicable Agency guidelines.
- Executed & Notarized Certificate of Trust

Section 2.05 Ownership Interest

Title to the subject property must be in the borrower's name at the time of application for a refinance transaction; and at the time of or simultaneously with the closing for all transactions.

- Continuity of obligation guidelines provided in this Section must be followed.
- The borrower must hold title to the property as a fee simple estate.
- All individuals signing the application are borrowers.

Section 2.05 Ownership Interest (cont.)

- All borrowers must sign the Mortgage Note.
- All individuals on the Closing Disclosure are not required to sign the Mortgage Note (must meet all applicable state laws).

Section 2.06 Non-Borrowing Spouse

The non-borrowing/purchasing spouse or domestic partner who has an interest in the subject property must follow all applicable state laws to waive any property rights he/she may have by virtue of being the owner's spouse.

Section 2.07 Power of Attorney

The use of a Power of Attorney (POA) is acceptable. The POA must be specific to the transaction and meet all applicable Agency and state requirements. Merchants Bank will not review POA documents prior to closing. A Power of Attorney is acceptable on transactions with an individual borrower. Use of POA's must meet all Agency and legal requirements.

The use of a Power of Attorney is prohibited when:

- Both borrowers on the transaction are relying upon the use of a Power of Attorney for consummation of the subject property, or;
- The transaction type is a cash-out refinance.

Section 2.08 Continuity of Obligations for Refinance Transactions

- At least one borrower on the new loan must also be obligated on the current lien: or
- Borrower has been on title to the subject property for the previous 12 months; occupied the subject property for the previous 12 months; and can demonstrate having made the payments in the previous 12 months.
- Must meet all other Agency requirements.

Section 2.09 Possible Exceptions to Continuity of Obligation

- The borrower on a refinance transaction was added to title a minimum of 24 months prior to the subject transaction.
- The borrower acquired the subject property through an inheritance or was legally awarded the property through a court ordered agreement. This scenario requires no minimum waiting period for continuity of obligation.
- The borrower has been on title for at least 12 months but is not obligated on the existing mortgage, which is being refinanced, and the borrower meets at least one of the following requirements:
 - Can document he or she has been residing at the property for a minimum of 12 months.
 - Can document he or she has paid the mortgage for a minimum of 12 months.
 - Can demonstrate a relationship with the current obligor (for example, a relative, spouse or domestic partner).

Section 2.10 Borrower in Litigation

Borrowers currently in a lawsuit are ineligible.

SECTION THREE: EMPLOYMENT, INCOME AND ABILITY TO REPAY

Correspondent may assume that employment is ongoing if a borrower's employer verifies current employment and does not indicate that employment has been or is set to be terminated.

As a result of inconsistencies or legibility concerns or at the discretion of the underwriter, additional information may be requested.

Section 3.01 Employment-Related Income

A. Stability of Income

a. Effective Income

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

b. Reflect Employment History

- i. The Correspondent must reflect the borrower's employment for the most recent two full years, and the Correspondent must require the borrower to:
 - I. Borrowers who have a job gap in employment lasting more than 120 days must provide proof of returning to work for at least 30 days
 - II. The borrower's new job must be verified with paystubs covering the 30-day period or a WVOE
 - III. Indicate if the borrower was in school or the military for the recent two full years, providing evidence supporting this claim, such as college transcripts, or discharge papers.
- ii. Income documents must be dated within 30 days of loan application date.

c. Analyzing a Borrower's Employment Record

- i. When analyzing a borrower's employment, Correspondents must examine:
 - I. The borrower's past employment record; and
 - II. The employer's confirmation of current, ongoing employment status.

NOTE: Correspondent may assume that employment is ongoing if a borrower's employer verifies current employment and does not indicate that employment has been or is set to be terminated. Sellers should not rely upon a verification of current employment that includes an affirmative statement that the employment is likely to cease, such as a statement that indicates the employee has given (or been given) notice of employment suspension or termination.

- ii. Sellers may favorably consider the stability of a borrower's income if he/she changes jobs frequently within the same line of work but continues to advance in income or benefits. In this analysis, income stability takes precedence over job stability.

d. Borrowers Returning to Work After an Extended Absence.*

A borrower's income may be considered effective and stable when recently returning to work after an extended absence if he/she:

- i. Is employed in the current job for six months or longer from the start date of the current job to the closing or consummation date of the Mortgage Loan; and
- ii. Can document a two-year work history prior to an absence from employment using W2s and paystubs, or written employment verification and paystub.

NOTE: An acceptable employment situation includes individuals who took several years off from employment to raise children, then returned to the workforce.

Important: Situations not meeting the criteria listed above may not be used in qualifying.

*Extended absence is defined as six months.

B. Salary, Wage, and Other Forms of Income

a. General Policy on Borrower Income Analysis

- i. The income of each borrower who will be obligated for the mortgage debt and whose income is being relied upon in determining ability to repay must be analyzed to determine whether his/her income level can be reasonably expected to continue.
- ii. In most cases, a borrower's income is limited to salaries or wages. Income from other sources can be considered as effective when properly verified and documented by the Seller.

b. Overtime, Bonus and Commission Income

- i. Overtime, bonus and commission income can be used to qualify the borrower if he/she has received this income for the past two years, and documentation submitted for the loan does not indicate this income will likely cease. If, for example, the employment verification states that the overtime, bonus and commission income is unlikely to continue, it may not be used in qualifying.
- ii. The Seller must use the lower of an average of overtime, bonus or commission income for the past two years. Periods of overtime, bonus and commission income less than two years may be acceptable. A borrower who has been with their current employer for no less than 12 months and has overtime, bonus or commission income received for less than two years but equal to or more than 12 months, may be eligible for qualifying with said overtime, bonus and commission income when strong compensating factors and documentation are provided.

c. Establishing an Overtime, Bonus and Commission Income Earning Trend

- i. The Seller must establish and document an earnings trend for overtime, bonus and commission income. If either type of income shows a continual decline, the Seller must document in writing a sound rationalization for including the income when qualifying the borrower. Only the most current lower earnings should be utilized.
- ii. A borrower who has recently changed employment, remaining in the same field, and has guaranteed bonus income documented in an employment contract, may be qualified with said bonus income. Document prior bonus history with prior job.

d. Qualifying Part-Time Income

- i. Part-time income can be used to qualify the borrower if the Seller documents that the borrower has worked the part-time job uninterrupted for the past two years and plans to continue.
- ii. Part-time income not meeting the qualifying requirements may not be used in qualifying.

NOTE: For qualifying purposes, "part-time" income refers to employment taken to supplement the borrower's income from regular employment; part-time employment is not a primary job, and it is worked less than 40 hours per week.

e. Income from Seasonal Employment

- i. Seasonal income is considered uninterrupted, and may be used to qualify the borrower, if the Seller documents that the borrower:
 - I. Has worked the same job for the past two years, and
 - II. Expects to be rehired the next season.
- ii. Seasonal employment includes, but is not limited to:
 - I. Umpiring baseball games in the summer; or
 - II. Working at a department store during the holiday shopping season.

f. Primary Employment Less than 40-Hour Work Week

- i. When a borrower's primary employment is less than a typical 40-hour work week, the Seller should evaluate the stability of that income as regular, ongoing primary employment. If the hours are considered common and customary for the field and the file contains documentation to support this type of income, the income may be considered for qualifying.
- ii. Example: A registered nurse may have worked 24 hours per week for the last year. Although this job is less than the 40-hour work week, it is the borrower's primary employment, and should be considered effective income.

g. Retirement Income

Retirement income must be evaluated, verified and documented in accordance with all Agency standards for eligibility and documentation.

File must contain evidence of the most recent retirement income distribution.

h. Social Security Income

Social Security must be evaluated, verified and documented in accordance with all Agency standards for eligibility and documentation.

i. Restricted Stock/Units

- i. Must provide Worksheet documenting income calculation
- ii. Borrower must be currently employed by the employer issuing the RSUs/Stock Options
- iii. Stock must be a publicly traded stock
- iv. Vested restricted stock units and stock options cannot be used for reserves if using for income to qualify
- v. Follow all other agency guidelines for calculation and documentation

C. Borrowers Employed by a Family-Owned Business

a. Income Documentation Requirement

In addition to normal employment verification, a borrower employed by a family-owned business is required to provide evidence that he/ she is not an owner of the business:

- i. Copies of signed personal tax returns for the past two years will be required.
- ii. A written verification of employment indicating percentage of ownership is required.
 - I. Must be qualified using a two-year average of W-2 earnings amortized over 24 months. If there has been a decline in earnings from one year to the next the Seller must use the more conservative lower income for qualifying.
 - II. Income must be reported on the borrower’s most recent two years signed federal income tax returns, regardless of the type of income the borrower receives (commission, salary, overtime, or bonus).

NOTE: A tax transcript obtained directly from the IRS may not be used in lieu of tax returns.

D. General Information on Self-Employed Borrowers and Income Analysis

a. Definition: Self-Employed Borrower

A borrower with a 25 percent or greater ownership interest in a business is considered self-employed.

b. Types of Business Structures

There are four basic types of business structures. They include:

- i. Sole proprietorships.
- ii. Corporations.
- iii. Limited liability or “S” corporations.
- iv. Partnerships.

c. Minimum Length of Self Employment

Income from self-employment is considered stable, and effective, if the borrower has been self-employed for two or more years.

| If the period of self-employment is: | Then: |
|--------------------------------------|--|
| Between one and two years | For the borrower’s income to be effective, the borrower must have at least two years of documented previous successful employment in the line of work in which the individual is self- employed, or in a related occupation. <u>NOTE:</u> A combination of one year of employment and formal education or training in the line of work the individual is self-employed or in a related occupation is also acceptable. |
| Less than one year | The income from the borrower may not be considered effective income. |

d. General Documentation Requirements for Self-Employed Borrowers

Self-employed borrowers must provide the following documentation prior to consummation.

- i. Regarding years of tax returns required - Please follow Agency guidelines.
- ii. For a corporation, “S” corporation, or partnership, signed copies of Federal business income tax returns - Please follow Agency guidelines; and
- iii. Year-to-date profit and loss (P&L) statement and balance sheet are required for all businesses for which a borrower has a 25% or greater ownership interest, including Sole Proprietorships. Only provide for businesses being used to qualify.
- iv. Re-verification of self-employment by a third party must be performed within ten business days prior to the date of consummation.
- v. A completed cash flow showing how self-employment income was determined.
- vi. Borrowers’ personal tax returns must be validated with the IRS for each year being used to qualify.
- vii. If personal return shows taxes owed, documentation must be in file to show paid.
- viii. Executed 4506C in name of any business being used to qualify will be required in the closing package.
- ix. If the borrower has additional self-employment income or loss, all companies must be analyzed. Any company that is reporting a loss must be considered in borrowers’ income qualification and provide a YTD Profit Loss with Balance Sheet.

Section 3.01 Employment-Related Income (cont.)

e. Establishing a Self-Employed Borrower's Earnings Trend

- i. If a borrower:
 - I. Provides quarterly tax returns, the income analysis may include income through the period covered by the tax filings, or
 - II. Is not subject to quarterly tax returns, or does not file them, then the income shown on the P&L statement may be included in the analysis, provided the income stream based on the P&L is consistent with the previous years' earnings. Income from a P&L statement may not be considered in the income calculation.
- ii. If the P&L statements submitted for the current year show an income stream considerably greater than what is supported by the previous year's tax returns, the Seller must base the income analysis solely on the income verified through the tax returns.
- iii. Income trend showing decline year after year or if Year to Date shows a declining trend this income cannot be used to qualify.

f. Analyzing the Business's Financial Strength

The Seller must consider the business's financial strength by examining annual earnings. Annual earnings that are stable or increasing are acceptable, while businesses that show a significant decline in income over the analysis period are not acceptable.

g. Distributions

Important: The borrower's withdrawal of cash from the corporation may have a severe negative impact on the corporation's ability to continue operating and must be considered in the income analysis.

The following guidance should be considered when using self-employment income for qualifying:

- i. If the Schedule K-1 reflects a documented, stable history of receiving income via cash distributions from the business, and it is consistent with the level of business income being used to qualify, then no further documentation supporting business liquidity and access to income is required.
- ii. If the Schedule K-1 does not document a stable history of receiving income via cash distributions from the business that is consistent with the level of business income being used to qualify, then the following must be included:
 - I. the business has adequate liquidity to support the withdrawal of earnings.

Section 3.02 Non-Employment Related Borrower Income

A. Alimony, Child Support, and Maintenance Income Criteria

Alimony, child support, or maintenance income may be considered effective if:

- a. **Must document a 36 month continuance from the Note date.**
- b. **The borrower provides the required documentation, which includes a copy of the:**
 - i. Final divorce decree.
 - ii. Legal separation agreement.
 - iii. Court order; or
 - iv. Voluntary payment agreement; and
- c. **The borrower can provide acceptable evidence that payments have been received during the last 6 months, such as:**
 - i. Canceled checks.
 - ii. Bank statement matching payment.
 - iii. Tax returns.

B. Investment and Trust Income

a. Analyzing Interest and Dividends

- i. Interest and dividend income may be used as long as tax returns and account statements support a two-year receipt history and three-year continuance from the date of closing. This income must be averaged over the two years.
- ii. Subtract any funds that are derived from these sources, and are required for the cash investment, before calculating the projected interest or dividend income.
- iii. Current statements required to support income is still being received.

b. Trust Income or Loss

- i. Income from trusts may be used if constant payments will continue for at least the first three years of the mortgage term as evidenced by trust income documentation.

- ii. Required trust income documentation includes a copy of the Trust Agreement or other trustee statement, confirming the
 - I. Amount of the trust.
 - II. Frequency of distribution; and
 - III. Duration of payments.
 - IV. Must provide of receipt of at least 1 month.
 - V. Trust must have been established for at least 12 months.
 - VI. Otherwise follow agency.
- iii. Trust account funds may be used for the required cash investment if the borrower provides adequate documentation that the withdrawal of funds will not negatively affect income. The borrower may use funds from the trust account for the required cash investment, but the trust income used to determine repayment ability cannot be affected negatively by its use.

c. Notes Receivable

- i. In order to include notes receivable income, the borrower must provide:
 - I. A copy of the note to establish the amount and length of payment, and
 - II. Evidence that these payments have been consistently received for the last 12 months through deposit slips, deposit receipts, canceled checks, bank or other account statements, or tax returns.
- ii. If the borrower is not the original payee on the note, the Seller must establish that the borrower is able to enforce the note.
- iii. Income from notes receivable must continue for three years from the date of closing to be considered qualifying income.

C. Military and Government Agency

a. Military Income

- i. Military personnel not only receive base pay, but often times are entitled to additional forms of pay, such as:
 - I. Income from variable housing allowances.
 - II. Clothing allowances.
 - III. Flight or hazard pay.
 - IV. Rations; and
 - V. Proficiency pays.
- ii. These types of additional pay are acceptable when analyzing a borrower's income, as long as the probability of such pay to continue is verified in writing.

NOTE: The tax-exempt nature of some of the above payments should also be considered.

b. VA Benefits

- i. Direct compensation for service-related disabilities from the Department of Veterans Affairs (VA) is acceptable, provided the Seller receives documentation from the VA.
- ii. Education benefits used to offset education expenses are not acceptable.

D. Rental Income

Follow applicable Agency guidelines for rental income, including calculation and amounts eligible for use. Borrower must own a primary residence (DU and LPA) or have a reasonable housing expense (DU only) to use rental income for qualification purposes.

E. Non-Taxable and Projected Income

a. Types of Non-Taxable Income

Certain types of regular income may not be subject to Federal tax. Such types of non-taxable income include:

- i. Some portion of Social Security, some Federal government employee retirement income, Railroad Retirement Benefits, and some State government retirement income.
- ii. Certain types of disability and public assistance payments.
- iii. Child support.
- iv. Military allowances; and
- v. Other income that is documented as being exempt from Federal income taxes.

Section 3.02 Non-Employment Related Borrower Income (cont.)

b. Adding Non-Taxable Income to a Borrower's Gross Income

- i. The amount of continuing tax savings attributed to regular income not subject to Federal taxes may be added to the borrower's gross income.
- ii. The percentage of non-taxable income that may be added cannot exceed the appropriate tax rate for the income amount. Additional allowances for dependents are not acceptable.
- iii. The Seller:
 - I. Must document and support the amount of income grossed up for any non-taxable income source, and
 - II. Should use the tax rate used to calculate the borrower's last year's income tax.
- iv. Foreign income is not eligible for use in qualifying.

NOTE: If the borrower is not required to file a federal tax return, the tax rate to use is 25 percent.

c. Analyzing Projected Income

- i. **Projected or hypothetical income is not acceptable for qualifying purposes. See number four below for projected income for new job.**
- ii. **Projected Income for New Job. (Executed Employment Contracts)**
 - I. Projected income is acceptable for qualifying purposes for a consumer scheduled to start a new job within 90 calendar days of loan closing if there is a guaranteed, non-revocable contract for employment.
 - II. The creditor must verify that the consumer will have sufficient income or cash reserves to support the mortgage payment and any other obligations between loan closing and the start of employment. Examples of this type of scenario are teachers whose contracts begin with the new school year, or physicians beginning a residency after the loan closes fall under this category.
 - III. The income does not qualify if the loan closes more than 90 calendar days before the consumer starts the new job.
 - IV. **Verbal Verification of Employment to support the borrower's employment has begun must be provided.**

Section 3.03 Unacceptable Income Sources

Income from sources considered ineligible includes, but is not limited to the following:

- Asset Depletion Income is not allowed when using FNMA however is allowed when using Freddie Mac
- Boarder Income
- Farm Income from the Subject Property.
- Foreign Income.
- Gambling Income.
- Home Ownership Subsidies from any source other than the Public Housing Agency.
- Income Derived from the Subject Property with Land Being Leased to Another Party.
- Income Derived from the Sale or Distribution of Marijuana.
- Income Determined to be Temporary or One-Time in Nature.
- Lump Sum Payments such as Inheritances or Lawsuit Settlements.
- Lump Sum Payments of Lottery Earnings that are not ongoing.
- Non-Incidental Income Received from Farming or Agricultural Use of a Property.
- Rental Income Received from the Borrower's Single Family Primary Residence or Second Home.
- Rental Income from an Accessory Unit Associated with the Subject Property.
- Retained Earnings in a Company.
- Taxable Forms of Income not declared on Personal Tax Returns.
- Trailing Co-Borrower Income.
- Unverifiable Income.
- VA Education Benefits.

Section 3.04 Borrower Liabilities: Recurring

A. Debt-to-Income Ratio Computation for Recurring Obligations

- a. The Seller must include the following when computing the debt-to-income ratios for recurring obligations:
 - i. Monthly housing expense; and
 - ii. Additional recurring charges extending ten months or more, such as:
 - I. Payments on installment accounts.
 - II. Child support or separate maintenance payments.
 - III. Revolving accounts (must be included when outstanding balance exists); and
 - IV. Alimony.
- b. Debts lasting less than 10 months can be excluded.
- c. **Revolving Account Monthly Payment Calculation**
If the credit report shows any revolving accounts with an outstanding balance but no specific minimum monthly payment, the payment must be calculated as the greater of:
 - I. 5 percent of the balance; or
 - II. \$10.

NOTE: If the actual monthly payment is documented from the Seller, or the Seller obtains a copy of the current statement reflecting the monthly payment, that amount may be used for qualifying purposes.
- d. **Reduction of Alimony Payment for Qualifying Ratio Calculation**
Follow agency guidelines as to using as income or liability.

Section 3.05 Borrower Liabilities: Contingent Liability

Follow agency guidelines.

SECTION FOUR: PROPERTY

This Section outlines the property types and project standards that apply to all Loan Programs. For additional property requirements see Section Four: The Appraisal, for specific requirements

Section 4.01 Eligible Property Types

- Single-family residences.
- Two unit properties.
- Condominiums
 - Attached Condominiums (borrower does not own the land or the exterior walls of their unit).
 - Site Condominiums (borrower owns the land on which the structure is located. These properties do not require condominium documentation; however, in some instances they may be considered a PUD.)
 - Detached Condominiums (borrower does not own the land or the exterior walls of the structure. Property would be considered a detached condo and must meet standard condominium documentation requirements shown below).
- Planned Unit Development (PUD).

NOTE: Not all property types listed above are eligible under all Loan Programs. See the product matrix in Section One for specifics.

A. Single-Family Residence

A single-family residence is an attached or detached single-family dwelling, including town homes, row homes, and site condominiums.

B. Two Units Properties

A two unit is a residential structure with more than one unit

C. Condominiums

A condominium is a unit in a project in which each unit owner has title to his or her individual unit, an undivided interest in the project's common areas, and in some cases, exclusive use of certain limited common areas. The information in this section applies to attached and detached condominiums but does not apply to site condominium.

a. Must meet Agency requirements and generally include:

Additional Condominium requirements include but are not limited to:

- i. Condominiums can be both attached and detached and should have both a master deed and bylaws in association with the total project. Detached condominiums should not be confused with site condominiums.
- ii. A condominium project must be created in accordance with local and state statutes and regulations.
- iii. The structure must contain two or more units with the interior airspace individually owned.
- iv. The balance of the property (land and building) must be owned in common by the individual unit owners.
- v. The condominium project must meet all applicable Agency requirements related to insurance.
- vi. In order for a condominium to be eligible for purchase, it must be eligible for sale to Agency, based on their current published selling guide criteria and these guidelines.

b. Condominium Overview

Seller must not be aware of any circumstances that would make the project ineligible for approval.

- i. Merchants Bank requires that a minimum of 50 percent of the units in a new condominium project or phase must be conveyed or under contract to purchasers who will occupy the units as a primary residence or second home.
- ii. Two- to four-unit condominium projects, are eligible in accordance with Agency's Selling Guide.
- iii. Merchants Bank aligns with Agency for investor concentration requirements on existing projects in which the subject property is a primary residence or second home.
- iv. Non-realty limited common elements (for example, boat dock slips, cabanas) may not be financed with the property. Assigned parking spaces may be financed as a cost of the property.

c. Ineligible Condominium

Merchants Bank does not permit Mortgage Loans secured by a property located in a project identified in these Guidelines or by the applicable Agency as Ineligible, or within any of the following project types or units containing any of the following additional property characteristics:

- i. Cooperatives.
- ii. Projects which include manufactured housing.

Section 4.01 Eligible Property Types (cont.)

- iii. Non-warrantable Condominium/PUD projects.
 - iv. A condominium which receives a single loan project eligibility waiver from an Agency because the project does not meet its published requirements.
 - v. A condominium project with no master insurance policy for the project.
 - vi. A condominium located in a project which received a Project Eligibility Review Service (PERS) approval that allows exceptions to the Agency's published requirements.
 - vii. Live/Work projects.
 - viii. Conversion condominium projects that have not been fully converted or do not meet these Guidelines or the applicable Agency guideline requirements.
 - ix. A condominium project which contains more than 35 percent of its total space dedicated to non-residential or commercial use.
- d. Approval Authority and Process for Condominium Projects**
- i. Sellers must follow the eligibility guidelines of the applicable Agency and Merchants Bank as provided in this section with respect to condominium.
 - ii. Sellers are responsible for providing accurate condominium warranties for all transactions secured by condominiums.
 - iii. All condominium projects must be warrantable and comply with the applicable Agency requirements, except as otherwise specifically set forth herein. A warrantable condominium is a condominium project that meets Agency and Merchants Bank eligibility standards.
 - iv. Limited review is ineligible for condo's in Florida.
 - v. A completed Condo Questionnaire is required.
 - vi. Condo Project Manager or Condo Project Advisor results are required.
 - vii. Limited review is allowed in established projects per Agency guidelines.
 - viii. Full review is allowed per Agency guidelines.

Section 4.02 Ineligible Property Types

Merchants Bank does not permit loans secured by a property that is either identified by the applicable Agency as Ineligible or with any of the following additional property characteristics:

- Manufactured housing/Mobile Home.
- Modular, prefabricated, and panelized homes that do not meet Agency eligibility criteria or meet local building codes.
- Properties deemed unique or consisting of unique characteristics (e.g., dome homes, berm homes, log home and geodesic).
- Properties comprising more than 40 acres of land.
- Hawaii Lava zone 1 & 2
- Section 184 Native American Mortgages
- Cooperatives.
- Group homes.
- Live/Work Projects.
- Non-Warrantable Condo.
- Land Trust.
- Time Shares.
- Leaseholds.
- Condition Rating C5/C6.
- Condotels.
- Construction Type C6.
- Properties with deed restrictions (with the exception of age restricted properties that meet FNMA deed restriction requirements.)
- Mixed use properties defined in accordance with Fannie Mae guidelines.

Section 4.03 Environmental Hazard Assessment

If the Seller has identified environmental problems through the performance of its project review process and due diligence review, and an environmental assessment would be required, then the loan is ineligible for sale to Merchants Bank.

Section 4.04 Hazard and Flood Insurance Requirements

- Seller should follow the applicable Agency guidelines as they relate to Hazard and Flood Insurance requirements, unless otherwise specified in these Premium Program Underwriting Guidelines and/or Correspondent Lending's Seller's Guide. Site condominiums may be treated as a single-family residence for purposes of hazard and flood insurance requirements.
- Documentation should be in the form of a declaration page or policy.
- Maximum allowable deductible securing a first mortgage loan is 5 percent of the face value of the policy.
- Such flood insurance policy for each Mortgage Loan is in an amount representing coverage not less than the least of (A) the outstanding principal balance of the Mortgage Loan (plus any additional amount required to prevent the Mortgagor from being deemed a co-insurer), (B) the full insurable value of the related Mortgaged Property, and (C) the maximum amount of insurance which was available under the Flood Disaster Protection Act of 1973, as amended.

Section 4.05 HOA Assessment Liens / Super Liens

Sellers should follow applicable Agency guidelines relative to a subject property located in a PUD or condominium project in which the subject's HOA assessments have priority over or will not subordinate to, our subject Mortgage Loan first lien.

Section 4.06 Multiple Parcels

Merchants Bank aligns with Fannie Mae guidelines with regard to multiple parcels are applicable.

Section 4.07 Rural Properties

Maximum acreage allowed is 40 acres. Comparable properties should be in similar rural locations and similar property styles. Appraiser must adequately explain the use of comparable properties not meeting these requirements. Properties with greater than 10 acres will require 3 comparable properties with similar acreage.

For properties over 20 acres, reduce guideline maximum LTV by 10%.

Section 4.08 Leased/Owned Utilities and Community Utilities

- Utilities owned, such as solar panels, must meet standard eligibility requirements, based on the applicable Agency.
- Leased utilities such as solar panels are acceptable provided the applicable Agency guidelines have been met. Additionally, the leased utility should be addressed by the appraiser in the property appraisal report. Anything that will include a UCC filing associated with the property and will/or will create an easement on title is ineligible.
- Community Utilities such as a shared well must follow the applicable Agency guidelines, which include, but may not be limited to the following standards:
 - Must meet community standards.
 - Must be adequate for the number of users of the shared utility.
 - Must be in service.
 - Must be accepted by area residents.
 - Must be accessible by the subject property owner.
 - If the shared utility is not located on the subject site, there must be a legally binding agreement for access and maintenance in place by the impacted parties.

Section 4.09 Private Road Maintenance Agreement/Shared

If the subject property is located on a private road, or access to the property requires the use of a private road or shared driveway, the file must contain at a minimum, one of the following documents and meet Agency eligibility standards:

- Title policy with the private road maintenance agreement language contained within.
- Private road maintenance agreement.
- Evidence the property is located within a state or county that has statutory provisions that define the responsibilities of property owners for the maintenance and repair of a private road; then no separate agreement or covenant is required

Section 4.10 Life Estate or Leasehold Estate

Loans secured by a life estate are not eligible for sale to Merchants Bank. Loans secured by a leasehold estate are not eligible.

Section 4.11 Condominium Owner's Association Obligation

If the subject property is part of a Condominium Association, which results in a financial obligation on the part of the borrower, provide the following information in the closed loan package.

- Name of Association or Management Company.
- Association or Management Company phone number and/or email address.
- Evidence of current status of dues (current, past due, etc.) if applicable.
- Amount and frequency of the dues payable for the Association or Management Company (if not provided on appraisal report.)

SECTION FIVE: APPRAISAL

This section outlines the appraisal documentation and evaluation requirements that apply to all Loan Programs. Seller should follow the applicable Agency guidelines as they relate to Appraisal Documentation, Requirements, and Property Evaluation, unless otherwise specified in these Underwriting Guidelines. Generally, requirements that vary from one Loan Program to another are described in Section One, and in most cases, program-specific differences are not referenced in this section.

Section 5.01 General Appraisal Requirements

- The appraisal report forms require the appraiser to certify that the appraiser did not base, either partially or completely, the analysis and/or opinion of value in the appraisal report on the race, color, religion, sex, age, marital status, handicap, familial status, or national origin of either the prospective owners or occupants of the subject property or of the present owners or occupants of the properties in the vicinity of the subject property or on any other basis prohibited by law.
- A full Uniform Residential Appraisal Report (URAR), with interior and exterior inspections, is required for all Premium Program loans.
- The appraisal should fully analyze the neighborhood, site, physical characteristics, and condition of the property.
- Regardless of underwriting method, additional information may be requested at the discretion of the underwriter.

Section 5.02 Appraiser Requirements

The appraiser must remain free of any outside influence in the valuation process. Appraisers must provide complete and accurate reports. The estimate of market value must represent the appraiser's professional conclusion, based on market data, logical analysis, and judgment.

The appraiser must comply with the independent appraiser requirements specified by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the FDIC, and the Office of Thrift Supervision, as well as Fannie Mae and Freddie Mac Appraiser Independence Requirements.

- The appraiser must comply with real estate appraisal regulations adopted in accordance with Title XI of the Financial Institutions Reform and Recovery and Enforcement Act of 1989 (regardless of whether Seller is subject to those regulations).
- The appraiser must be experienced in the appraisal of properties similar to the type being appraised.
- The appraiser must be actively engaged in appraisal work, licensed and in good standing.
- The appraiser may not be an interested party in the subject transaction.
- The appraiser must subscribe to a code of ethics that is at least as strict as the code of the American Institute of Real Estate Appraisers or the American Society of Appraisers.

Section 5.03 Appraisal Report Requirements

Full Appraisal:

All files must contain a full appraisal report regardless of the loan amount or AUS findings documentation requirements.

Loan Amounts greater than \$2,000,000 require 2 full appraisals.

Transferred appraisals are not allowed. Appraisal must be specific to the transaction, cannot use an appraisal from a purchase and then use for a refinance.

All appraisals with a CU or LCA score over 2.5 or no CU or LCA score must contain a secondary valuation product. It is not acceptable to interchange CU/LCA scores. Fannie Mae loans require a CU score and Freddie Mac loans require a LCA score.

Secondary Valuation Products:

- Obtain a Collateral Desk Analysis (CDA) from Clear Capital
 - If the secondary valuation report is greater than the appraised value, the LTV/HCLTV would be based on the initial appraised value.
 - If the secondary valuation report is lower than the appraised value but within a 10% tolerance, the LTV/HCLTV would be based on the initial appraised value.
 - If the secondary valuation report is lower than the appraised value by more than a 10% tolerance, a third valuation report must be provided.

Section 5.03 Appraisal Report Requirements (cont.)

Third Valuation (if applicable):

All files must contain a third valuation product if and when the secondary valuation product (CDA) returns a value that is "indeterminate" or if the CDA indicates a lower value than the appraised value and exceeds a 10% tolerance.

- Field Review
- OR
- Second Appraisal

Value will be based on the lesser of the original appraisal, field review, or 2nd appraisal. The maximum number of supporting valuation products for any appraisal is two products.

Section 5.04 Documentation Age and Standards

All appraisals must be performed in strict accordance with and comply with all applicable local, state, and federal laws, regulations, and orders and must conform to the current Uniform Standards of Professional Appraisal Practice adopted by the Appraisal Standards Board of the Appraisal Foundation. Appraisals must meet all Agency standards.

Review each appraisal in detail for completeness, accuracy, and assessment of the current fair market value.

Merchants does not allow transferred appraisals. All appraisal reports must be prepared for the current transaction and in the name of the originating lender. No assignments allowed.

All versions of the subject valuation reports (full appraisal, desk review, or field review) must be included in the closed loan package and provided to the borrower no later than three business days prior to the consummation.

A. Age of Appraisal

An appraisal update is allowed for appraisals that are over 120 days aged but less than 180 days aged from Note

The appraiser must inspect the exterior of the property & provide required photos. Appraiser must review the current market data to determine whether the property has declined in value since the original appraisal. If value has declined a new full appraisal is required

The appraisal update must be dated within 120 days of the Note date

Loans purchased more than 90 calendar days after closing (Mortgage Note date to purchase date) require an Appraisal Update or a new appraisal supporting the original appraised value. If an Appraisal Update indicates that the value has declined, a new appraisal must be obtained and must support the original appraised value. The Appraisal Update or New Appraisal must be dated within 60 calendar days of the date that Merchants Bank purchases the loan.

B. Acceptable Appraisal Forms

The appraisal form must be prepared and signed by an approved appraiser. The appraisal report may be on the old version, or on the new version effective January 7, 2026.

- a. Follow agency guidelines on appropriate appraisal form based on product.
- b. Appraisal must include the invoice, appraiser license, AIR Compliance certification, and comply with all appraisal standards.
- c. Follow agency guidelines on the use of a substitute appraiser.

Section 5.05 Property Quality and Condition

A. Condition Rating

The appraisal should indicate that the property is in average or better condition. If the property condition is rated fair or poor, will not be eligible for sale to Merchants Bank. Additionally, when provided, the following Condition rating codes, as defined by the FHFA Uniform Appraisal Dataset used by Fannie Mae and Freddie Mac, must be considered as follows:

- a. Property condition ratings of C1, C2, C3, or C4 are acceptable in an "as is" condition.
- b. Property condition ratings C5 and C6 carry additional risk, and therefore will not be eligible for sale to Merchants Bank.

B. Quality Rating

The appraisal should indicate that the property is in average or better condition. If the property condition is rated fair or poor, the appraisal should be made subject to repairs that will bring the property to an average or better condition. Additionally, when provided, the following Quality of Construction rating codes, as defined by the FHFA Uniform Appraisal Dataset used by Fannie Mae and Freddie Mac, must be considered as follows:

Section 5.05 Property Quality and Condition (cont.)

- a. Quality of Construction ratings of Q1, Q2, Q3, Q4, or Q5 is acceptable.
- b. Any appraisal report containing a Quality of Construction rating Q6 is ineligible for sale to Merchants Bank as a result of an increased risk associated with this quality rating.
- c. When the appraisal is made subject to completion, repairs, or inspection, the lender must ensure that the construction is completed, the repairs are made, or the inspection is completed. If the inspection shows that additional repairs are required, those repairs must be completed prior to closing in order for the transaction to be eligible for sale to Merchants Bank.

Section 5.06 Disaster Policy

- When natural disasters, such as hurricanes, tropical storms, and tornadoes, occur prior to the purchase of a loan by Merchants Bank, the Seller must take steps to ensure that the subject property secured by the loan is free of material damage. Follow applicable agency guidelines.
- Once the federal government has declared a disaster with individual assistance (assistance to individuals and households), a FEMA Disaster Notification is issued at <http://www.fema.gov/>.
- Note: A disaster declared with public assistance (assistance to State and local governments and certain private nonprofit organizations for emergency work and the repair or replacement of disaster-damaged facilities) does not require a re-inspection.
- Unless otherwise specified, Seller should follow the applicable Agency guidelines as it relates to properties involved in a disaster.
- Loan fundings may be delayed as a result of properties located in a disaster area as declared by an individual state or by Federal authority such as FEMA.

Section 5.07 Improvements with or without Permits

- The appraiser must comment on the quality and appearance of the work and its impact, if any, on the market value of the subject property.
- Unpermitted additions to a subject property should not be included in the overall square footage of the subject in the appraisal report.
- If improvements were made to property appraiser must comment the improvements were legally done.

Section 5.08 Escrow Holdbacks

- Escrow holdbacks are eligible if the work has been completed, the escrowed funds have been disbursed, and a completion certificate (Form 1004D) has been provided. These steps need to be completed prior to delivery to Merchants.

SECTION SIX: TRANSACTION

Section 6.01 Occupancy Type

- **Primary Residence**
 - A primary residence is a property in which all borrower(s) take title and occupy as his, her, or their primary residence for the majority of the year.
 - Borrowers are required to occupy subject property within 60 calendar days of closing.
- **Second Home**
 - The property must be occupied by the borrower for some portion of the year.
 - The property must be suitable for year-round occupancy.
 - All borrowers must take title to the property.
 - Property cannot be subject to any agreements that give a management company control over the property.
 - The property must be under the borrower's exclusive control (timeshares and rental agreements ineligible).
 - Must be a one-unit property
 - Must meet all other agency requirements.

If any of the first four requirements are not met, the borrower must give a satisfactory explanation for the use of the property as a second home, and the seller must carefully consider the property eligibility.

Section 6.02 Loan Purpose

Merchants Bank may purchase Mortgage Loans made for the following purposes as defined in this section:

- Purchase Mortgage Loan.
- Refinance Mortgage Loan.
 - Rate and Term Refinance Mortgage Loan.
 - Cash-out Refinance Mortgage Loan

Section 6.03 Purchase Mortgage Loan Transactions

A transaction in which the proceeds received must be used to finance the acquisition of the subject property.

A. Acceptable Attributes for Purchase Mortgage Loan Transactions:

- a. Except as otherwise required by applicable laws, closing costs may not be financed as part of a purchase money transaction.
- b. Purchase money transactions do not allow cash back to the borrower at closing other than an amount representing:
 - i. A reimbursement for the borrower's overpayment of fees.
 - ii. Costs paid by the borrower in advance (for example, earnest money deposit, appraisal, and credit report fees).
 - iii. A legitimate pro-rated real estate tax credit in locales where real estate taxes are paid in arrears, unless restricted by the Loan Program.
- c. Must meet all other Agency requirements.

B. Unacceptable Attributes for Purchase Mortgage Loan Transactions:

- a. **Purchasing in a Redemption Period**

Certain state laws provide for a "redemption period" after a foreclosure or tax sale has occurred, during which time the property may be reclaimed by the prior mortgagor or other party upon payment of all amounts owed under the related mortgage loan.

 - i. The length of the redemption period varies by state and does not expire automatically upon sale of the property to a new owner.
 - ii. Unexpired redemption periods are deemed to be an unacceptable title impediment, and a mortgage loan with an unexpired redemption period is not eligible for sale to Merchants Bank.

Section 6.03 Purchase Mortgage Loan Transactions (cont.)

b. Property Flips

If the seller has owned the property less than 180 calendar days from the date of the purchase contract and the new sales price is higher than the price paid by the seller to acquire the property, this transaction would be ineligible for purchase by Merchants Bank.

The following types of re-sale transactions are not considered property flips:

- i. Property being sold by a spouse who acquired the property through a divorce settlement.
- ii. Property acquired by an employer through a relocation program.
- iii. Property being sold by an administrator or executor of an estate.
- iv. Property being sold by a lender, mortgage investor, or mortgage insurance company acquired through foreclosure or deed-in-lieu of foreclosure.
- v. Significant improvements made to the property and appraisal comments on all improvements made.

Section 6.04 Refinance Mortgage Transactions

Refinance Mortgage Transactions are separated into two categories, Rate and Term and cash-out.

A. Requirements for all Refinance Mortgage Transactions:

- a. There must be continuity of obligation.
- b. If the subject property was purchased in the previous 12 months, the Closing Disclosure(s) must be provided in order to determine the subject property value.

B. Rate and Term Refinance

a. Acceptable Attributes for a Rate and Term Refinance Mortgage Loan:

- i. Paying off a mortgage loan secured by the subject property.
 - I. Closing costs, points, and pre-paid fees may be rolled into the loan amount.
 - II. Borrowers may receive de minimis cash back up to 1 percent of the new refinance loan amount at closing.
- ii. Buying out the equity position of a co-owner as a result of a court ordered agreement.
- iii. Property ownership resulting from a legal documented inheritance.
- iv. Paying off a first lien and purchase money subordinate lien (Seller must document that the entire subordinate lien was used to purchase the property).
- v. Paying off a first lien HELOC used in its entirety to purchase the subject property.
- vi. The payoff of a construction loan in a two-close-construction-to-permanent mortgage loan (see below for details).

b. Unacceptable Attributes for a Rate and Term Refinance Mortgage Loan:

- i. Paying off a purchase-money HELOC which has had subsequent non-purchase money draws exceeding \$2000 cumulatively in the previous twelve months (see Cash-out Refinance Mortgage Loans below).
- ii. Loans which include the payoff of delinquent real estate taxes, which are past due 60 calendar days or more (see Fannie Mae guidance related to this topic).
- iii. Paying off debt at the time of consummation with any portion of the allowable cash-back will result in the loan being deemed a cash-out refinance.
- iv. Properties currently listed for sale.

C. Cash-Out Refinance Mortgage Loans

a. Acceptable Attributes for a Cash-Out Refinance Mortgage Loan:

- i. The funds received by the borrower are not limited to a specific purpose.
- ii. The maximum amount of cash-out in any transaction, including the payoff of an unseasoned second lien, is \$500,000.
- iii. The following are some examples of Cash-Out Refinance Mortgage Loan scenarios:
 - I. Paying off a non-seasoned (financed for less than twelve months) non-purchase money subordinate lien.
 - II. Paying off a purchase-money HELOC which has had subsequent non-purchase money draws exceeding \$2,000 cumulatively in the previous twelve months.
 - III. The payoff of a first lien HELOC which has had non-purchase money draws exceeding \$2,000 cumulatively in the previous twelve months.

Section 6.04 Refinance Mortgage Transactions (cont.)

- IV. The payoff of a private mortgage lien for which:
 - the note requires no payment and therefore no payment history is available; or,
 - the lien is not seasoned for a 12-month period.
- b. **Unacceptable Attributes for Cash-Out Refinance Mortgage Loans:**
 - i. Properties currently listed for sale or listed for sale in the previous six months (measured from application date).
 - ii. Properties owned fewer than six months (see Delayed Financing Section below).
 - iii. Paying off a delinquent tax lien on title (must be satisfied prior to closing).
- c. **Properties Located in Texas:**
 - i. Refinance loans are considered ineligible for purchase.
- d. **Must meet all other Agency requirements**

Section 6.05 Refinance of a Home Improvement or Renovation Loan

Borrowers may pay off a home improvement loan for recent renovations completed after living in the home for a minimum of 12 months provided the home improvement lien has also seasoned for a period equal to or exceeding 12 months.

Section 6.06 Listed for Sale

Rate and Term refinance transactions for properties that are listed for sale as of the refinance application date are ineligible for sale to Merchants Bank.

Cash-out refinance transactions for properties that had been listed for sale at any time within the six months prior to the refinance application date are ineligible for sale to Merchants Bank.

Must meet all other Agency requirements.

Section 6.07 First-Time Home Buyer

Any borrower who has not owned a residential property at any time during the prior three years (prior ownership within the previous three years is measured from the Closing Disclosure closing date [when the property was sold] to the date of the subject mortgage loan application).

First-time home buyer requirements do not apply to loans with multiple borrowers, when at least one borrower has owned a residential property at any time during the prior three years.

First-time home buyers have a maximum loan amount limit of \$1,500,000.

Section 6.08 Delayed Financing

Allowed.

Section 6.09 Subordinate Financing

A. Existing Subordinate Financing

Existing subordinate financing may be eligible, provided such financing is re-subordinated to the first lien of the Mortgage Loan. The HCLTV may never exceed the maximum LTV/HCLTV permitted with respect to the transaction type.

- a. Closing Disclosure(s) are required with respect to any transaction involving the property within the past 6 months.
- b. The terms of any existing subordinate financing must be fully disclosed to Merchants Bank, documented with a copy of the note, and compliant with the requirements as set forth by Merchants Bank.
- c. Regardless of the type of subordinate lien, the DTI must include all additional lien(s) monthly payment(s), and the LTV/HCLTV must include all subordinate financing loan limit(s).

Section 6.09 Subordinate Financing (cont.)

B. Re-subordination Requirements for Refinance Transactions

- a. If subordinate financing remains in place in connection with a first mortgage loan refinance transaction, Merchants Bank requires execution and recordation of a subordination agreement.
- b. If state law permits subordinate financing to remain in the same subordinate lien position established with the prior first mortgage loan being refinanced, Merchants Bank does not require re-subordination. Seller is responsible for determining that the subordinate lien satisfies any specified criteria of applicable law. Title insurance must reflect the loan in the first lien position.
- c. Insurance against a former junior lien not being properly subordinated to the refinance Mortgage Loan does not release Seller from its obligation to comply with these re-subordination requirements, or from the requirement that the subject property be free and clear of all encumbrances and liens having priority over the lien of the Mortgage Loan.
- d. If the second lien being refinanced was subject to a reduction of the credit line limit, it will be necessary to evidence the newly recorded second lien amount on title and provide a copy of the modified Note.

C. Ineligible Subordinate Financing

- a. Employer assistance secured by a subordinate lien against the subject property.
- b. Individual Development Accounts (IDAs) used for down payment and/or closing costs that require a subordinate lien against the subject property.
- c. Disaster Relief Grants or loans that require a subordinate lien against the subject property.
- d. Subordination of an existing PACE loan obtained prior to 7/6/10. The loan must be paid off when there is sufficient equity.
- e. Subordinate loans with negative amortization
- f. Any other subordinate financing ineligible not permitted under Agency guidelines.

Section 6.10 Multiple Properties Financed/Owned

Follow agency guidelines.

Section 6.11 Ineligible Transaction Types

Mortgage Loans made for the following purposes are not eligible for sale to Merchants Bank:

- A. Loans to Principal Owners of Business Lending Client—Mortgage Loans made to principal owners or majority shareholders (25 percent or greater ownership) of a Seller.
- B. Single-Close Construction-to-Permanent Mortgage—A single-close transaction that modifies the Mortgage Note and the 1st payment date.
- C. Installment Land Contracts.
- D. A Refinance of a Restructured Loan or Short Refinance Loan.
- E. Renovation or Rehabilitation Mortgages.
- F. Texas Section 50(a)(6) Loans, Texas Section 50(a)(3) and Texas Section 50(f)(2).
- G. New York state properties.
- H. Ineligible Property Flips (see Property Flip Section of these guides for additional information).
- I. A Refinance Transaction on a Property Currently Listed for Sale.
- J. Cash-out transactions on properties listed for sale in the previous six months (measured from the date of application).
- K. Transactions that include the use of privately funded loans for the purpose of securing assets for the transaction.
- L. EEM Loans (Energy Efficient Mortgages).
- M. HUD-184 Mortgages.
- N. Loans exceeding 89.99% LTV/HCLTV.
- O. Transactions consisting of an Assignment of Sales Contract.
- P. Refinance of properties owned Free/Clear (delayed financing is eligible).
- Q. Sales Contracts that contain personal property items that are not permanently attached (common items such as appliances are acceptable).

Section 6.12 Maximum Loan to Value / High Loan to Value (LTV/HCLTV)

Mortgage loans with an HCLTV of up to 89.99% are eligible for sale to Merchants Bank, subject to satisfaction of the other applicable requirements for such mortgage loans (see product matrix).

Section 6.13 Interested Party Contributions (IPCs)

A. Interested party contributions

Interested party contributions are used to cover costs that are normally the responsibility of the borrower that are paid directly or indirectly by someone else who has a financial interest in or can influence the terms and the sale or transfer of the subject property. Interested party contributions may be in the form of financing concessions or sales concessions.

Interested parties include, but are not limited to builders, realtors, brokers, and sellers.

Merchants Bank does not permit IPCs to be used to make the borrower's down payment, meet financial reserve requirements, or meet minimum borrower contribution requirements.

Premium Program loans are limited to a maximum IPC as follow:

- o If LTV is 75.01% – 89.99%, maximum of 6%
- o If LTV is 75% or less, maximum of 9%

Must meet all other Agency requirements.

a. Financing Concessions

Common and customary closing costs and pre-pays typical for the subject property location are acceptable. Financing concessions paid on the borrowers' behalf which include, but are not limited to, financial contributions from an interested party, payments related to pre-pays, financing terms, or other payments related to acquiring the property are subject to Agency guidelines limits, unless otherwise specified in these Guidelines.

Common and customary financing concessions may include, but are not limited to:

- i. Origination fees, discount points, commitment fees.
- ii. Appraisal costs.
- iii. Transfer taxes, tax stamps, tax service fees.
- iv. Title insurance premiums, attorneys' fees.
- v. Survey fees.
- vi. Pre-paid interest (30 calendar days maximum).
- vii. Real estate taxes covering any period after settlement unless no escrow account established.
- viii. Property insurance premiums (14 months).
- ix. HOA assessments (limited to 12 months)

b. Sales Concessions

Non-realty items with real value, provided to the borrower within or outside a sales contract, are considered sales concessions and must be deducted from the sales price of the subject property in accordance with Agency guidelines.

B. Builders and Interested Parties Affiliated with Mortgage Lender

If an affiliation exists due to common ownership or control by a Seller (originating lender) over an interested party, or when there is common ownership by a third party over a Seller (originating lender) and interested party; then all sales and financing concessions from these parties are considered in the total allowable interested party contributions.

SECTION SEVEN: CREDIT & LIABILITIES

Regardless of underwriting method, additional information may be requested at the discretion of the underwriter.

A borrower's credit profile may be established by submitting the loan through Desktop Underwriter or Loan Product Advisor but may not be relied on solely for the credit review for the Premium Program.

Section 7.01 Documentation Age

The following documentation age limitations apply:

- Desktop Underwriter: The credit report must be dated no more than 120 calendar days prior to the Note date.
- Loan Product Advisor: The credit report must be dated no more than 120 calendar days prior to the Note date.

Section 7.02 Documentation Standards

- All accounts, revolving and installment, reported by the borrower on the application must be verified on the credit report or directly by a credit reference. Review bank statements for additional recurring debt such as Tesla (which does not report to credit bureaus) Pay Pal, etc.
- The following data is required for each trade line reported on the credit report:
 - Current balance.
 - Current status.
 - Current rating.
 - Monthly payment amount.
 - Payment history for the most recent 12 months (as applicable)
- Written verifications of mortgage, rent, or credit must be sent by the Seller directly to the creditor or landlord. The return address on the verification must be the seller's address. The hand carrying of verifications by the borrower or interested party is strictly prohibited.

Section 7.03 Credit Report Requirements

- Seller should follow the automated underwriting requirements and the applicable Agency guidelines as they relate to Credit Report Requirements, unless otherwise specified in these Underwriting Guidelines.
- The lowest mid-score(s) will be the qualifying credit score. Should a borrower have two credit scores, the lower of the two will be considered the borrower's qualifying credit score.
- All borrowers on a loan are required to have a valid Social Security number.
- Credit reports with partially displayed Social Security numbers are not considered eligible documentation due to the increased opportunity for fraud. Merchants Bank requires the complete Social Security number to be displayed on the credit report.
- Loans to borrowers who have been issued an ITIN in lieu of a Social Security number are ineligible.
- Late payments unrelated to a mortgage which occurred in the previous 12 months require a letter of explanation from the borrower.

Section 7.04 Credit Report Red Flags

Credit repositories have developed messages to identify potentially fraudulent activities perpetrated by individuals misusing others' identity information. The messages may pertain to the borrower's Social Security number, address, telephone number, etc.

All fraud alert messages appearing on the credit report need to be satisfactorily addressed to ensure the information presented on the loan application is true and correct.

Section 7.05 Non-Traditional Credit

Any loan for which one or more borrowers do not have a valid credit score, or borrowers who do not have at least two valid credit scores, are considered "non-traditional" credit loans. All non-traditional credit loans are ineligible for sale to a Merchants Bank.

Section 7.06 Foreign Credit References

If a borrower does not have sufficient trade line references in the United States, credit references from foreign countries may not be used, and the loan will be ineligible for sale to Merchants Bank.

Section 7.07 Minimum Credit Score

Sellers should refer to the product matrix in Section One to determine the minimum credit score for a particular loan program, loan amount, and/or property type. Merchants Bank requires a minimum of two credit scores per borrower. Borrowers who do not meet the minimum credit score and minimum trade line requirements are considered “non-traditional” or “thin file” credit borrowers and are ineligible for sale to Merchants Bank.

Section 7.08 Authorized User Accounts

- The authorized user account cannot be considered part of the borrower’s credit history when the borrower has several authorized user accounts, and only a few accounts of his/her own (see second bullet). Conversely, if the borrower has several trade lines in good standing and only a minor number of authorized user accounts, the seller may consider the information reported on the credit report as an accurate reflection of the borrower’s credit history.
- If a borrower provides 12 months canceled checks as proof of payment on an authorized user account, the account may be considered part of the borrower’s credit history. The required monthly payment must be included in the DTI calculation.
- Authorized user accounts are not required to be included in the borrower’s DTI ratios, unless the debt was listed on the initial loan application, or if the borrower is responsible for making the payment.

Section 7.09 Significant Adverse or Derogatory Credit

To conclude that the borrower’s credit profile is acceptable despite previous financial mismanagement, the rationale supporting the determination that the financial mismanagement is unlikely to recur, and the borrower’s credit profile is acceptable must be explained.

The following guidelines apply to individuals who have a significant adverse or derogatory credit incident such as a bankruptcy or foreclosure reporting in their credit history, or if it’s determined that a borrower was personally obligated on a mortgage debt which was not reported.

A. Documentation Requirements

- a. Evidence that the borrower has re-established an acceptable credit profile. The borrower will be considered as having acceptable re-established credit if the credit report is free of late payments in the previous 24 months, and the borrower has at least three traditional credit references with activity during the most recent 24-month period.
- b. Evidence on the credit report and other credit documentation of the length of time since completion of the significant derogatory event to the date of the loan closing, and of completion of the recovery time period requirements as identified below.

B. Reestablished Credit Requirements

After a bankruptcy, foreclosure, deed-in-lieu of foreclosure or short sale, or other significant derogatory credit, the borrower’s credit will be considered reestablished if all of the following are met:

- a. The waiting period and related additional requirements are met.
- b. The minimum credit score requirements based on the loan parameters and established eligibility requirements are met.
- c. The borrower has traditional credit. Non-traditional credit is not acceptable. The borrower will be considered as having acceptable reestablished credit if the credit report is free of late payments in the previous 24 months, and the borrower has at least three traditional credit references with activity during the most recent 24 months period. AUS approval based on credit profile.

C. Recovery Time Periods

Recovery time requirements are based on the discharge, dismissal, or completion date to the date of the loan closing.

a. Bankruptcy Filing

For all bankruptcies discharged or dismissed, Merchants Bank will require:

- i. A seven-year waiting period from the date of discharge or dismissal to the date of closing to be eligible for purchase.
- ii. Mortgages discharged in bankruptcy require seven-year waiting period from the date of discharge to the date of closing.

Section 7.09 Significant Adverse or Derogatory Credit (cont.)

- iii. Borrowers with multiple bankruptcy filings are ineligible.
- b. **Foreclosures/Deeds-in-Lieu of Foreclosure/Pre-Foreclosure/Short Sales/Real Property Settled Debts**

Any of the above credit events require seven years' seasoning after the completion date, and satisfactory re-established credit must be verified.

 - i. Regardless of the borrower's credit score and/or payment history, the seven-year seasoning requirement applies for any reference to one of the above-mentioned events, whether via the credit report or other loan file documentation.
 - ii. Manufactured housing/mobile home loans indicated as repossessions, collections, or charge-offs are considered foreclosures.
- c. **Deed for Lease**

Borrowers may have the opportunity to lease a property for which they have given a deed-in-lieu of foreclosure. When the borrower's loan file references a deed for lease, the underwriter must determine the completion date of the deed-in-lieu of foreclosure to ensure all requirements are met.
- d. **Restructured Mortgage Loan**

A borrower who has had a loan restructured, in which the original transaction has been changed, resulting in absolute forgiveness of debt or a restructure of debt through either a modification of the original loan or origination of a new loan that results in any of the following is ineligible for sale to Merchants Bank within seven years of the credit event:

 - i. Forgiveness of a portion of principal and/or interest on either the first or second mortgage.
 - ii. Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness.
 - iii. Conversion of any portion of the original mortgage debt to a "soft" subordinate mortgage; or
 - iv. Conversion of any portion of the original mortgage debt from secured to unsecured.
 - v. Short Refinance Mortgage Loan.
 - vi. A new transaction that includes any of the above is ineligible for sale to Merchants Bank.

Section 7.10 Consumer Credit Counseling

Loans with borrowers who have received credit counseling as a result of derogatory credit within the past seven years are ineligible for sale to Merchants Bank.

Section 7.11 Past Due Accounts

Past-due open accounts must be brought current prior to the loan closing and will be factored into the overall credit profile.

Section 7.12 Collections/Charge-offs/Liens/Judgments/Settled Debts

- Liens impacting title must be satisfied prior to closing.
- For debts that do not impact title, must follow the following:
 - All collections and charge-offs must be paid if an individual collection or charge-off is equal to or greater than \$250 or if the cumulative total of collections and charge-offs per loan is equal to or greater than \$1000.
 - All settled debts reported in the previous 24 months must be fully explained and taken into consideration in the full credit review.

Section 7.13 IRS Installment Plans

Loans with borrowers making monthly installment payments to the Internal Revenue Service (IRS) may be eligible for sale to Merchants Bank provided the borrower is being qualified with the installment payment, and the following documentation is included in the loan file:

- Document the repayment is current per agency.
- Evidence of the approved installment agreement with the IRS.
- If the installment debt is scheduled to be repaid in ten months or less, the debt may be excluded from the borrower's DTI, provided the obligation does not impact the borrower's ability to pay the mortgage after closing.
- IRS debts which have become liens or are past-due, are ineligible for qualifying as an installment plan and must be paid prior to consummation.

Section 7.14 Current Housing and Rental Payment History

- An acceptable VOR provided by an unrelated professional property management company or cancelled checks and/or supporting bank statements for the most recent 12 months (based on program requirements) must be provided.
- If primary residence or a second home is being retained and owned free and clear a property report card is needed to support that it's owned free and clear.
- Provide current annual tax bill, annual or monthly homeowners association bill, and annual insurance to document the payments for each.
- Borrowers renting from a private landlord must provide cancelled checks and/or bank statements for rental verification.
- For qualifying purposes, a first-time homebuyer's rental documentation requires at least one borrower has a 24-month rental history.
- All mortgages shown on the credit report and/or VOM must show the tradeline current from the report date until the Note Date.

Section 7.15 Derogatory Housing Payment History

- Housing payment history to show 0x30 days in the last 24 months. Follow Agency and AUS Findings.
- First-time home buyers with late rental payments in the previous 24 months are ineligible for purchase by Merchants Bank.

Section 7.16 Disputed Accounts

The Seller must follow the automated underwriting requirements and the applicable Agency guidelines to determine how to treat the disputed account. The disputed trade line must be considered in the overall AUS risk assessment.

Section 7.17 Debts Paid by a Business

In order for a business debt in borrower's name to be excluded from the borrower's total qualifying ratio calculation, evidence must be provided to show the business has paid the debt for the previous 12-month period. Additional requirements in removing a business paid debt include but are not limited to the following:

- No history of delinquency on the account in question.
- Evidence the obligation was paid out of company or business funds.
- Tax returns or cash flow analysis to reflect the business making said payment.
- Applies to all business types, with the exception of Schedule C Sole Proprietorship.

Section 7.18 Paying Off Debt

Both installment and revolving debts may be paid off in order to remove the payment from the total qualifying ratios. The following documentation must be provided:

- Evidence the account has been paid in full.
- Source of funds to pay off the debt must be documented.
- Installment debts with ten payments or fewer remaining do not need to be considered in the borrower's qualifying ratios provided the obligation does not impact the borrower's ability to pay the mortgage after closing, or the borrower has sufficient additional cash reserves to cover the remaining balance of the installment debt.
- Lease payments may not be paid down or paid off for qualifying purposes; lease payments must be considered as recurring monthly debt obligations and included in the debt-to-income ratio calculation regardless of the number of months remaining on the lease
- Revolving debt must be documented as paid in full in order for the monthly obligation to be removed from the qualifying DTI. Paid in full revolving accounts may remain open with a zero balance at consummation.

Section 7.19 Student Loans

A payment for all student loans regardless of their current status (forbearance, deferred, or in repayment) must be included in the borrower's recurring monthly debt for qualifying. The following options are eligible for qualifying a borrower with student or educational loans:

- If a monthly student loan payment is provided on the credit report, the lender may use that amount for qualifying purposes.

Section 7.19 Student Loans (cont.)

- If the credit report does not reflect the correct monthly payment, the lender may use the monthly payment that is on the student loan documentation (the most recent student loan statement) to qualify the borrower.
- For deferred loans, loans with a "0" monthly payment, or loans in forbearance, the lender may calculate
 - a payment equal to 1% of the outstanding student loan balance (even if this amount is lower than the actual fully amortizing payment), or
 - a fully amortizing payment using the documented loan repayment terms.

Section 7.20 30 Day Open Accounts

Provide a current statement confirming the full payment is due.

Section 7.21 Privately Financed Mortgages

A satisfactory payment history for privately financed mortgages must be documented with the most recent 12 months cancelled checks and/or bank statements.

Section 7.22 Borrowers Living Rent-Free

Borrowers living rent-free are eligible provided they can provide a prior 24-month rental or mortgage history.

Section 7.23 Qualifying Payment (HELOC)

The payment used for qualifying a borrower with an existing home equity line of credit (HELOC) must be based on the current balance owed on the HELOC documented by either the credit report or the current statement from the creditor dated after the date of the credit report.

When funds drawn from an existing HELOC are being considered as assets for the transaction, the qualifying payment must be based on the new outstanding home equity line balance.

Section 7.24 Credit Freeze

Even in the situation of frozen credit, a three-in-file merged report is required.

At least two credit bureaus must be unfrozen.

Section 7.25 Re-scored Credit Reports

New credit reports ordered specifically for the purpose of increasing a borrower's credit scores are ineligible for purchase by Merchants Bank. A new credit report with updated credit scores may be provided if the initial credit report contained erroneous information and has since been corrected, provided the new credit report meets the Fair Credit Reporting Act with regard to the nature of the inquiry. All credit reports obtained in connection with the subject loan transaction must be provided in the closed loan package, along with a letter of explanation and any supporting documentation regarding the reason for the new report.

Section 7.26 Credit Refresh/ Debt Monitoring

A credit refresh (gap report/debt monitoring) of the borrower's liabilities must be completed no more than 10 days prior to the Note date. The loan should contain the new report and if applicable an updated 1008, URLA and the new AUS findings indicating the loan still meet program guidelines. Any new inquires must be addressed and if applicable, documented.

SECTION EIGHT: ASSETS

Section 8.01 Generally determined in accordance with Agency requirements.

Section 8.02 Documentation Age

The following documentation age limitations apply:

- Asset documents should be within 30 days of loan application.

Section 8.03 Minimum Down Payment and Cash to Close

Evidence must be provided to determine that the borrower has sufficient funds to pay the down payment, prepaid items, and closing costs as well as adequate additional cash reserves as the Loan Program requires.

Section 8.04 Verification and Sourcing Funds

Follow agency guidelines. Asset reports such as Blend or Finicity are acceptable, the company must be agency approved.

Section 8.05 Cash Deposits

Cash deposits are ineligible funds in a transaction and should be reduced from the amount of available funds, regardless of whether they are considered large deposits.

Section 8.06 Co-Mingled Funds

Borrowers using accounts in which their funds are co-mingled with a non borrowing party or parties must provide appropriate authorization letters from all.

Section 8.07 Gift Funds

Gift funds are eligible for down payment and closing costs when a borrower has met a minimum 5 percent contribution from their own funds. Gift eligibility and documentation standards must follow all applicable Agency guidelines.

Section 8.08 Gifts of Equity

Gifts of equity are not allowed

Section 8.09 Foreign Assets

- All assets considered in the transaction must be located in US bank accounts. Funds in financial institutions located outside of the US will not be eligible for reserves.
- The borrower's source of funds for the down payment and/or closing costs must comply with the Office of Foreign Assets Control (OFAC) Sanctions Programs for funds originating from countries with OFAC sanctions.

Section 8.10 Additional Reserve Requirements

- Borrowers with other properties in addition to the subject property are required to have an additional six months of reserves for each additional property, based on the individual properties PITIA. Evidence of six months taxes, insurance, and association dues are required for properties owned free and clear, as well as for properties which the borrower(s) are on title but not included on the Mortgage Note.
- Borrowers who do not currently own a primary residence are required to have six months of rent payments in reserves when financing a second home.
- Reserve calculations for an existing rental property are based on the actual PITIA calculation for that property, rather than the negative cash flow from the property.
- See Matrix section 1.01

Section 8.11 Business Assets - Allowed for down payment/closing cost and reserves

- Personal & Business tax returns for the entity the funds are being withdrawn from, A YTD Profit Loss and Balance Sheet are required
- Cash flow analysis required using most recent three months business bank statement to determine no negative impact to the business
- Business bank statements must not reflect any history of NSF's or overdrafts
- Borrowers with less than 100% ownership must have at least 51%, provide access letter form all other owners and the percentage of ownership is applied to the balance of the assets being used.
- Maximum LTV is 80%
- No more than 50% of the funds needed for reserves can come from business assets

Section 8.12 Ineligible Assets

The following is a list of assets that are not allowed to be used for the downpayment, reserves, closing cost or minimum contribution.

- Anticipated savings
- Cash on Hand
- Cash-out from Subject Transaction
- College Savings Plans
- Community Savings Plans
- Cryptocurrencies
- Custodial accounts
- Gift of Equity
- Lot Value (when received as gift)
- Non-Vested Restricted Stock/Stock Options
- Unsecured financing
- Sweat Equity/Trade Equity
- Any other additional asset listed by agencies
- Bridge Loan (cannot be used for reserves)
- Existing Heloc (cannot be used for reserves)

SECTION NINE: AUS REQUIREMENTS

Merchants Bank requires the use of Fannie Mae's Desktop Underwriter® (DU® or Desktop Underwriter) or Freddie Mac's Loan Product Advisor® (LP® or Loan Product Advisor) for automated underwriting decisions on all loans. DO® (Desktop Originator®) findings may not be considered a substitute for DU approval.

Regardless of underwriting method, Merchants Bank reserves the right to require a manual underwrite and additional information may be requested at the discretion of the underwriter.

Section 9.01 DU and LP Resubmission Requirements

- A. The final DU and LP decisions must reflect the proper risk class and/or documentation level as the loan was closed, including occupancy type, product type, amortization terms, loan terms, property type, loan purpose, sales price, and appraised value.
- B. Verification documents must be reviewed, and the verified values compared to the data submitted to Loan Product Advisor or Desktop Underwriter. The terms of the closed loan must match the terms of the final loan submission.
- C. Resubmission of a loan to DU or LP is required if:
 - a. Prior to the closing, the data has expired.
 - b. The findings are no longer valid due to an expired submission.
 - c. If information on the previous submission was not true, complete, or accurate.
- D. High Balance and Conforming loans must show Approved Eligible or Accept Eligible.
- E. Jumbo loans must show Approve/Ineligible or Accept/Ineligible for loan amount only.
- F. Non-Delegated Findings must be finalized to Merchants Bank.

SECTION TEN: ABILITY TO REPAY REQUIREMENTS

Seller must comply with all state, local, and municipal Ability to Repay requirements, including providing any required documentation.

For all initial applications taken on or after January 10, 2014, the Seller must comply with TILA and Regulation Z requirements regarding the borrower's ability to repay (ATR). In all circumstances, the Seller must consider and document the borrower's ability to repay in accordance with applicable law.

The Seller must also confirm and provide evidence to Merchants Bank that the Mortgage Loan is a Qualified Mortgage (QM) within the meaning of 12 C.F.R. 1026.43(e)(2), (e)(4), or (f). Seller bears the sole responsibility for determining that the Mortgage Loan is a QM, and the Approved Buyers will rely on the Seller's designation at delivery. Sellers should refer to Section 4.4 of the Seller's Guide for additional information related to QM compliance. Furthermore, all Premium Program mortgage loans must be underwritten in accordance with the requirements set forth in these Premium Program Underwriting Guidelines. Please note that certain of these requirements may be more restrictive than the requirements set out in Regulation Z, so Sellers should rely on the requirements set forth herein.

In compliance with Regulation Z, it is important to note that all income documentation must be received and verified prior to the consummation date. Documentation received at consummation or post-consummation cannot be considered as verified in the credit decision.

All loans must meet the Safe Harbor requirement of Regulation Z Section 1026.43(e)1 including, without limitation, the maximum APR requirements established under Section 1026.43(e)(2)(vi)(A)

NOTE: In an attempt to provide additional clarity to those topics where Merchants Bank has more restrictive requirements than those set forth by the CFPB, we have emphasized those additional requirements in blue type. Additionally, it is important to review Section 6 of these Premium Program Underwriting Guidelines for additional guidance.

VERSION HISTORY

| Effective Date | Version | Description of Changes Made |
|----------------|---------|--|
| 3/1/2025 | 1.0 | N/A |
| 4/8/2025 | 1.1 | <p>AUS Jumbo/Conforming/High Balance Elite Decreased maximum DTI from 45 to 38 for LTV's > 80</p> <p>AUS Jumbo Elite Changed Reserve minimums:</p> <ul style="list-style-type: none"> • Purchase/R&T 80LTV \$1.5M from 9 to 12 months • 2nd home Purchase/R&T \$1.5M from 9 to 12 months • 2nd home Purchase/R&T \$2.0M from 9 to 12 months • 2nd home Purchase/R&T \$2.25M from 12 to 18 months <p>High Balance Elite Changed Reserve minimums:</p> <ul style="list-style-type: none"> • Purchase R&T 80LTV \$1.21M from 9 to 12 months • 2nd home Purchase/R&T \$1.21M from 9 to 12 months <p>Section 1.01 Seasoning defined</p> <ul style="list-style-type: none"> • Loans delivered 20 or more days beyond the loan closing date |
| 4/11/2025 | 1.2 | <p>Section 1.01 Temporary Buydowns not allowed - all products</p> <p>Section 1.01 Proof of Mortgage Insurance activation required prior to purchase</p> |
| 4/23/2025 | 1.3 | <p>Section 7.31 Credit freeze clarifications</p> <p>Section 4.08 Solar Panel UCC Filing Ineligible</p> |
| 5/12/2025 | 1.4 | <p>Section 1.01 AUS Jumbo Elite Changed Reserve minimums:</p> <ul style="list-style-type: none"> • Purchase/R&T 80LTV \$2.0M from 9 to 12 months • Purchase/R&T 80LTV \$2.5M from 12 to 18 months • Primary Cash-out 75LTV \$1.5M from 6 to 12 months • Primary Cash-out 75LTV \$1.75M from 6 to 12 months • Primary Cash-out 70LTV \$2.0M from 9 to 12 months <p>AUS High Balance Elite</p> <ul style="list-style-type: none"> • Primary Cash-out 75LTV \$1.209M from 6 to 12 months <p>Jumbo, High Balance, and Conforming Elite Products</p> <ul style="list-style-type: none"> • Removed MI requirement for LTV > 80 <p>AUS Jumbo Elite</p> <ul style="list-style-type: none"> • Added loan size minimum <p>Secondary Valuations</p> <ul style="list-style-type: none"> • Added language around LCA score <p>Mortgage Insurance</p> <ul style="list-style-type: none"> • Removed MI requirement for LTV > 80 <p>Section 5.03 Appraisal Report Requirements</p> <ul style="list-style-type: none"> • Added LCA score details <p>Section 6.04B b1</p> <ul style="list-style-type: none"> • Removed b i. loans with subordinate financing <p>Section 3.03 Unacceptable Income Sources</p> <ul style="list-style-type: none"> • Removed Stock Options |

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| 5/12/2025 | 1.4 | <p>Section 3.01 Employment Related Income</p> <ul style="list-style-type: none"> Section d. i years of tax returns required use Agency Guidelines |
| 5/19/2025 | 1.5 | <p>Section 1.01 AUS Jumbo, Conforming, Agency High Balance Elite Products</p> <ul style="list-style-type: none"> DTI maximum raised from 45 to 49.99 if all 3 conditions met: <ol style="list-style-type: none"> ≤\$2M Purchase/R&T ≤80 LTV 720 minimum fico score <p>AUS Jumbo, Conforming, Agency High Balance Elite Products Called out no MI required for LTV > 80</p> <p>Eligible Property Types Removed 2 Unit Detached from List</p> <p>Section 6.03 Purchase Mortgage Loan Transactions Section 6.03 B b.</p> <ul style="list-style-type: none"> Removed new subordinate financing ineligible for purchase <p>Section 6.09 Subordinate Financing Section 6.09 A New Subordinate Financing</p> <ul style="list-style-type: none"> Removed new subordinate financing ineligible for purchase |
| 6/10/2025 | 1.6 | <p>Section 3.02 Non-Employment Related Borrowers Income Section A. c.</p> <ul style="list-style-type: none"> Changed acceptable period from 12 to 6 months Removed sentence referring to time periods <p>Section E. c. ii.</p> <ul style="list-style-type: none"> Changed 60 to 90 days in c.ii. sections I and III <p>Section 3.03 Unacceptable Income Sources</p> <ul style="list-style-type: none"> Removed Future Income <p>Section 4.01 Eligible Property Types Section B Condominium Overview</p> <ul style="list-style-type: none"> V Removed Florida condo LTV restriction |
| 6/16/2025 | 1.7 | <p>Section 1.01 and Section 7.17 Derogatory Housing Payment History</p> <ul style="list-style-type: none"> Changed 0x30 from 12 months to 24 months |
| 7/2/2025 | 1.8 | <p>Section 7.33 Credit/Refresh/Debt Monitoring</p> <ul style="list-style-type: none"> Reiterating Agency requirements regarding pre-close credit reporting to raise awareness <p>Section 7.09 Minimum Trade Line Requirement</p> <ul style="list-style-type: none"> Follow Agency guidelines added |
| 8/4/2025 | 1.9 | <p>Section 1.01 Matrices</p> <ul style="list-style-type: none"> No subordinate financing for LTV's > 80 added for MPP products Added Closer/Closing Attorney to Fraud Report section <p>Section 1.10 Fraud Reports</p> <ul style="list-style-type: none"> Added clarity on OFAC, SAM-EPLS, and HUD-LDP <p>Section 5.03 Third Valuation</p> <ul style="list-style-type: none"> No change but modified the language for clarity |
| 10/6/2025 | 2.0 | <p>Section 3.01 Employment-Related Income Section A. b.</p> <ul style="list-style-type: none"> Added 'Commission' to Overtime and Bonus Income <p>Section A. c. ii.</p> <ul style="list-style-type: none"> Removed two years plus YTD paragraph <p>Section B i.</p> <ul style="list-style-type: none"> Removed 50% of RSU can be used as qualifying income and replaced with "must provide worksheet documenting income calculation." |

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| 10/6/2025 | 2.0 | <p>Section D. d. iii.</p> <ul style="list-style-type: none"> • Added only provide for business being used to qualify <p>Section D. d. vii.</p> <ul style="list-style-type: none"> • Section added <p>Section D. e.</p> <ul style="list-style-type: none"> • Removed section I and section iv <p>Section D. g.</p> <ul style="list-style-type: none"> • Removed section ii and section I <p>Section 3.02 B Investment and Trust Income</p> <ul style="list-style-type: none"> • Added iv., v., and vi. in Trust Income or Loss section <p>Section 3.03 Unacceptable Income Sources</p> <ul style="list-style-type: none"> • Added Asset Depletion Income is not allowed when using FNMA however is allowed while using Freddie Mac |
| 10/20/2025 | 2.1 | <p>Section 1.10 Fraud Reports</p> <ul style="list-style-type: none"> • Added language to clarify what a Seller's responsibilities are regarding a fraud report. Additional parties were also added to the list of participants to a Fraud Report. |
| 12/4/2025 | 2.2 | <p>Section 1.01 Matrices</p> <ul style="list-style-type: none"> • Updated matrices for the increase in Conforming Loan limits. |
| 2/19/2026 | 2.3 | <p>Multiple Changes, Deletions and Revisions</p> <p>Section 1.01 Matrices</p> <ul style="list-style-type: none"> • Age of Documents, Change 60 to 90 for Preliminary Title Expiration • Multiple Properties Financed/ Owned, Remove overlay and Replace with Follow Agency Requirements • Ineligible Property Types, Add Refinance of property free and clear of a mortgage (delayed financing is eligible) <p>Section 1.07 A Leaseback</p> <ul style="list-style-type: none"> • Remove overlay and replace with Follow Agency 60-day rule <p>Section 1.10 Remove Homeowners Insurance Company bullet</p> <ul style="list-style-type: none"> • Revise the sentence below, The above should be clear in OFAC-SDN, SAM-EPLS, HUD-LDP, and Freddie Mac Exclusionary list if you are a seller servicer <p>Section 2.04 Loans to Trust Add bullet point to read, Executed & Notarized Certificate of Trust</p> <p>Section 3.01 Employment-Related Income</p> <p>Section A. b. ii.</p> <ul style="list-style-type: none"> • Remove and replace with Income documents must be dated within 30-days of loan application, Remove Note <p>Section B. b. ii.</p> <ul style="list-style-type: none"> • Replace 18 month references with 12-months <p>Section D. d. viii.</p> <ul style="list-style-type: none"> • Executed 4506C in name of any business being used to qualify will be required in the closing package <p>Section D. d. ix.</p> <ul style="list-style-type: none"> • If the borrower has additional self-employment income or loss, all companies must be analyzed. Any company that is reporting a loss must be considered in the borrower's income qualification and provide a YTD Profit Loss with Balance Sheet <p>Section 3.02 Non-Employment Related Borrower Income</p> <p>Section A. a.</p> <ul style="list-style-type: none"> • Remove wording and Replace with Must document a 36-month continuane from the Note Date <p>Section 3.02 Non-Employment Related Borrower Income</p> <p>Section A. c.</p> <ul style="list-style-type: none"> • Remove NOTES |

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| 2/19/2026 | 2.3 | <p>Section 3.04 Borrower Liabilities: Recurring</p> <ul style="list-style-type: none"> Remove A which causes B to become A <p>Section B. b.</p> <ul style="list-style-type: none"> Remove statement and NOTE and replace with Debts lasting less than 10-months can be excluded <p>Section 3.05 Borrower Liabilities: Contingent Liability</p> <ul style="list-style-type: none"> A-E Remove all and replace with Follow Agency guidelines <p>Section 3.06 Borrower Liabilities: Projected Obligations and Obligations Not Considered Debt</p> <ul style="list-style-type: none"> Remove entire section <p>Section 5.04 Documentation Age and Standards</p> <ul style="list-style-type: none"> Revised section due to recent appraisal form changes <p>Section 5.07 Improvements without Permits</p> <ul style="list-style-type: none"> Revise title to Improvements with and without Permits, remove bullet 3 and replace with If improvements were made to property, appraiser must comment that the improvements were legally done <p>Section 6.03 Purchase Mortgage Loan Transactions</p> <ul style="list-style-type: none"> b, add v, Property with significant improvements made and appraisal comments on all improvements <p>Section 6.06 Homes Recently Acquired or Listed for Sale</p> <ul style="list-style-type: none"> Revise title to Homes Listed for Sale and remove first two paragraphs <p>Section 6.10 Multiple Properties Financed/Owned</p> <ul style="list-style-type: none"> Multiple Properties Financed/ Owned, remove all bullets and replace with Follow Agency guidelines <p>Section 6.11 Ineligible Transaction Types</p> <ul style="list-style-type: none"> Add P, Refinance of properties owned free and clear (delayed financing is eligible) and Q, Sales contracts that contain personal property items that are permanently attached (common items such as appliances are acceptable) <p>Section 6.13 Determining Amount to be Financed</p> <ul style="list-style-type: none"> Remove section <p>Section 6.14 Determining Value</p> <ul style="list-style-type: none"> Remove section <p>Section 6.15 CLTV/HCLTV</p> <ul style="list-style-type: none"> Remove section <p>Section 6.16 Interested Party Contributions (IPCs)</p> <ul style="list-style-type: none"> Remove C. Personal Property <p>Section 6.17 Monthly Housing Expense</p> <ul style="list-style-type: none"> Remove section <p>Section 6.18 Non-Arm's-Length Transactions</p> <ul style="list-style-type: none"> Remove section <p>Section 7.02 Documentation Standards</p> <ul style="list-style-type: none"> Add to bullet 1, Review bank statements for additional recurring debt which does not report to credit bureaus, such as Tesla, Pay Pal, etc, Last bullet, remove the underline but keep wording <p>Section 6.17 Monthly Housing Expense</p> <ul style="list-style-type: none"> Remove section |
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| 2/19/2026 | 2.3 | <p>Section 6.18 Non-Arm's-Length Transactions</p> <ul style="list-style-type: none"> Remove section <p>Section 7.02 Documentation Standards</p> <ul style="list-style-type: none"> Add to bullet 1, Review bank statements for additional recurring debt which does not report to credit bureaus, such as Tesla, Pay Pal, etc, Last bullet, remove the underline but keep wording <p>Section 7.07 Minimum Credit Score</p> <ul style="list-style-type: none"> Combine with 7.10 <p>Section 7.09 Minimum Trade Line Requirement</p> <ul style="list-style-type: none"> Remove section <p>Section 7.14 Collections/Charge-offs/Liens/Judgments/Settled Debts</p> <ul style="list-style-type: none"> Revise the open bullet amounts, All collections & charge-offs must be paid if an individual collection or charge off is equal to or greater than \$250 or if the cumulative total of collections & charge-offs is greater than \$1000 <p>Section 7.15 IRS Installment Plans</p> <ul style="list-style-type: none"> Revise first bullet, Document that the repayment is current per agency <p>Section 7.16 Housing and Rental Payment History</p> <ul style="list-style-type: none"> Replace the last bullet with Any property owned free and clear must be documented with a property report card. HOI with no mortgagee listed is not sufficient, Add new line, For rental properties listed on Schedule E taxes, HOI, and HOA are considered satisfactory history <p>Section 7.17 Derogatory Housing Payment History</p> <ul style="list-style-type: none"> Removed 0x60 and 0x90 references and added the statement, All mortgage's shown on the credit report and/or VOM must show the tradeline current from the reported date until the Note Date <p>Section 7.19 Debts Paid by a Business</p> <ul style="list-style-type: none"> In the first line Remove, and residual income <p>Section 7.22 Qualifying House Payment</p> <ul style="list-style-type: none"> Remove section <p>Section 7.23 Qualifying with an Interest Only Mortgage</p> <ul style="list-style-type: none"> Remove section <p>Section 7.24 Alimony and Child Support</p> <ul style="list-style-type: none"> Remove section <p>Section 7.25 Payment Shock</p> <ul style="list-style-type: none"> Remove section <p>Section 7.26 30 Day Open Accounts</p> <ul style="list-style-type: none"> Replace wording of current 30 day payment with, a current statement <p>Section 7.27 Separation Agreements</p> <ul style="list-style-type: none"> Remove section <p>Section 7.29 Borrowers Living Rent-Free</p> <ul style="list-style-type: none"> Replace with Borrowers living rent-free are eligible provided they can provide a prior 24-month rental or mortgage history <p>Section 7.30 Qualifying Payment (HELOC)</p> <ul style="list-style-type: none"> Remove the last sentence |
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| 2/19/2026 | 2.3 | <p>Section 7.32 Re-scored Credit Reports</p> <ul style="list-style-type: none"> Remove the an before Merchants <p>Section 8.04 Verification and Sourcing Funds</p> <ul style="list-style-type: none"> Remove first sentence and word Otherwise. After the remaining words add, Asset reports such as Blend or Finicity are acceptable, the company must be agency approved. <p>Section 8.06 Cash Deposits</p> <ul style="list-style-type: none"> Remove the second sentence <p>Section 8.07 Co-Mingled Funds--Non-Borrowing Spouse</p> <ul style="list-style-type: none"> Remove section <p>Section 8.09 Gift funds for the Purposes of Paying Off Debt</p> <ul style="list-style-type: none"> Remove section <p>Section 8.12 Retirement Accounts</p> <ul style="list-style-type: none"> Remove section <p>Section 8.13 Additional Reserve Requirements</p> <ul style="list-style-type: none"> Add new bullet, See Matrices Section 1.01 for minimum requirements <p>Section 8.14 Retaining and Converting Departing Residence</p> <ul style="list-style-type: none"> Remove section <p>Section 8.15 Reported Non-Sufficient-Funds (NSF) Fees</p> <ul style="list-style-type: none"> Remove section <p>Section 8.16 Stocks, Bonds, and Mutual Funds</p> <ul style="list-style-type: none"> Remove section <p>Section 8.18 Employer Relocation Funds</p> <ul style="list-style-type: none"> Remove section |
| 3/10/2026 | 2.4 | <p>Section 3.01 A, b, i Reflect Employment History</p> <ul style="list-style-type: none"> Clarify Gap overlay with revised language and change all Seller references to Correspondent <p>Section 6.04 B, a, v, I and II, Rate and Term Finance</p> <ul style="list-style-type: none"> Removed overlay concerning paying off a seasoned HELOC and MPP section reference |