



# **Seller's Guide**

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## SECTION 1 – INTRODUCTION

### 1.1 COMPANY OVERVIEW

Acra Lending ("Acra") is a DBA of Citadel Servicing Corporation ("CSC"). Though one and same, generally, the Acra moniker is utilized for marketing and originating / purchasing purposes; whereas CSC is utilized for corporate and servicing functions. Acra is a recognized leader in the Residential Non-Prime Mortgage market. Headquartered in Lake Forest, California. Acra originates via a retail or wholesale departments and also purchases closed real estate loans secured by a variety of property types that are made to Borrowers with diverse credit profiles. Those loans purchased from Lenders ("Sellers") through the Correspondent line of business may be delivered via a number of methodologies.

### 1.2 CORRESPONDENT LINE OF BUSINESS

Acra has combined proven loan products that are fully compliant with Ability-to-Repay ("ATR") directives with innovative programs and pricing to accommodate the non-conforming Borrower. Acra's Correspondent Line of business is designed to assist mortgage lenders who want to responsibly compete in the Non-Prime mortgage loan marketplace. Sellers that partner with Acra are offered advanced products, excellent service, and a steady, consistent source of liquidity in the secondary market.

As an Acra Correspondent Seller, firms will be able to take advantage of the growing market in the post Dodd-Frank era with the support of the preeminent Non-Prime mortgage lender.

### 1.3 BUSINESS HOURS

Acra's business hours are Monday through Friday, 08:00 a.m. to 05:00 p.m. Pacific Time Zone, excluding the following holidays:

- New Year's Day;
- Martin Luther King, Jr. Day;
- Presidents' Day;
- Memorial Day;
- Independence Day;
- Labor Day;
- Columbus Day;
- Thanksgiving Day;
- Day after Thanksgiving; and
- Christmas Day.

### 1.4 MAILING ADDRESS

Acra Lending  
25531 Commercentre Drive  
Suite 160  
Lake Forest, CA 92630

### 1.5 TELEPHONE & EMAIL

Toll Free: (888) 800-7661  
Local: (949) 900-6630  
E Mail: [corr@acralending.com](mailto:corr@acralending.com)

### 1.6 WEBSITE

[www.acralending.com/correspondent](http://www.acralending.com/correspondent)  
Current rate sheets, product matrices, underwriting guidelines, and this Seller's Guide are posted to the web site and updated periodically.

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**1.7  
ACRA'S SELLER  
GUIDE**

The Acra's Seller Guide ("Guide") is intended to provide Acra's policies, procedures, and standard requirements for the origination and sale of residential mortgage loans. For questions regarding items not addressed in the Guide, contact your Correspondent Business Development Officer.

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**1.8  
GUIDE  
ORGANIZATION**

The Guide contains Acra's written policies, procedures, requirements, and exhibits for the origination and sale of loans to Acra.

Periodically, Acra will issue written announcements and bulletins to notify Sellers of important policy and / or procedural changes, and new / revised loan programs. It is Seller's responsibility to review and comply with all updates received from Acra.

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**1.9  
AMENDMENTS TO  
THE GUIDE**

The Guide will be updated periodically or modified and supplemented with amended pages. Any amendments or revisions will become effective as of the date stated in the written announcement or bulletin and affect all mortgage loans purchased under commitments entered on or after the effective date.

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**1.10  
CORRESPONDENT  
SERVICES  
CONTACTS**

Correspondent Services are centralized in our Corporate Office in Lake Forest, CA for all regions of the country. Following are the Corporate Contacts Seller should use for correspondence, from the front lines back to senior management:

Acra Lending	(888) 800-7661
Local:	(949) 900-6630
E mail:	Correspondent Services <a href="mailto:corr@acralending.com">corr@acralending.com</a>

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## **SECTION 2 – SELLER ELIGIBILITY**

### **I. SELLER ELIGIBILITY AND APPLICATION REQUIREMENTS**

#### **2.1**

##### **GENERAL**

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All Sellers must be approved to do business with Acra. Upon receipt of Seller's application package, Acra will analyze Seller's ability to sell and follow the requirements described in Acra's Correspondent Services Seller Guide. Acra reserves the right to request additional information from Sellers or change requirements without notice.

#### **2.2**

##### **MINIMUM SELLER ELIGIBILITY REQUIREMENTS**

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Eligibility requirements as an approved Seller are as follows:

1. Be appropriately licensed to originate and sell residential mortgages in all states of intended origination.
  2. Capacity to fund loans with Seller's funds provided by either a commercial warehouse line or private sources.
  3. Have a minimum net worth derived from audited financial statements as follows:
    - \$1,000,000 for Bulk Retail
    - \$1,000,000 for Flow Retail
    - Acra will purchase loans from Seller as a third-party originator provided Seller meets Acra's minimum audited net worth of \$1,000,000.
  4. Maintain a current Errors and Omissions Insurance Policy and Fidelity Bond with a minimum coverage of \$1,000,000.
  5. Have a "good standing" rating with all governmental licensing and revenue collection agencies, including a public record clear of any civil or criminal judgments.
-

### 2.3

#### **CORRESPONDENT ("SELLER") APPLICATION REQUIREMENTS**

A Correspondent Application must be completed, signed and include documentation as follows:

1. Acra Correspondent Application and any Addendum thereto;
2. Acra Certificate of Authorization and Specimen Signature Form;
3. Acra Authorization to Investigate Background Form(s) (To be completed by all individuals who own more than 20% of the company);
4. Acra Execution of Documents Agreement;
5. Acra Mortgage Loan Purchase Agreement and Addenda (Completed, signed, dated);
6. Warehouse Line with Non-QM and Non-Prime authorization (\$3,000,000 minimum);
7. Formation Document:
  - The Corporate Charter or Articles of Incorporation (if a corporation);
  - The Articles of Organization and Operating Agreement (if a Limited Liability Company); or
  - The Partnership Agreement (For partnerships of any kind);
8. Organizational Chart / Description – Organizational Chart will be required if applicant is owned by other entities or persons;
9. Management Chart – Chart is to show applicants divisions, officers, and managers;
10. Financial Statements:
  - Most recent two years – audited;
  - Interim statements within 90 days, if yearend statements are more than 90 days old; and
  - HUD audit, including compliance audit (if HUD approved lender);
11. Truth-in-lending Compliance (Samples of the following are required from an actual closed loan for each of the following loan programs: Fixed Rate, Conventional, ARM):
  - Loan Estimate;
  - Closing Disclosure;
  - Final HUD-1 Final Truth-in-lending with Itemization attached;
  - Note; and
  - 1008;
12. Insurance and Fidelity Bond (Copies of current binder noting coverage amount, deductible and expiration date);
13. Wiring Instructions;
14. Resumes (Include copies of resumes for personnel identified on Acra Application and Profile form and all other Corporate Officers);
15. Quality Control Plan;
16. Bank Secrecy ACT / Anti-Money Laundering (BSA / AML) Program – Provide a copy of your current BSA / AML Program, including policies and procedures, as required by the Financial Crimes Enforcement Network (FinCEN); if applicable please provide the most recent independent review of the AML Program.;
17. State Licensing (Copies of each State License in which you are licensed to conduct Mortgage Banking business for both 1<sup>st</sup> and 2<sup>nd</sup> liens as applicable);
18. Doing Business As ("DBA") / Fictitious Name Filings (If applicable);
19. Copies of Report Cards from Main Investors;
20. Current Third-party Originators (Include a list of Originators, Approval Procedures, a Sample Agreement, and any special Quality Control Procedures); and
21. Copies of any regulatory audit results or inquiries. Letter of explanation for any and all current or ongoing corporate litigation. Letter of explanation for all repurchase requests within the past twelve (12) months and any outstanding repurchase requests.



**II. MORTGAGEE'S ERRORS AND OMISSION FIDELITY BOND****2.4  
ERRORS &  
OMISSIONS  
INSURANCE  
POLICY AND  
FIDELITY BOND**

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Each Seller must have a blanket Mortgagee's Errors and Omissions Insurance Policy and Fidelity Bond in effect at all times. The policy and bond must insure Seller and its successors and / or assigns against losses resulting from dishonesty or fraud, criminal or negligent acts, errors or omissions on the part of the officers, employees, or other persons acting on behalf of Seller.

Notification is to be addressed to Acra's mailing address, as listed on page 1 of "Section 1 – Introduction" of this Guide.

**2.5  
ERRORS &  
OMISSIONS  
INSURANCE  
POLICY  
REQUIREMENTS**

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Seller must have and maintain Mortgagee's Errors and Omissions Insurance coverage as follows:

The policy must, at minimum, protect Seller and its successors and / or assigns, against losses resulting from negligence, errors or omissions in the performance of normal duties, including but not limited to the following:

1. Determination of whether properties are located in special flood hazard areas as required by the National Flood Insurance Act of 1968;
  2. Compliance with the mortgage insurance requirements for loans sold to Acra;
  3. Initial payment of premiums for hazard insurance, and any flood insurance required; and
  4. Payment of real estate taxes and any special assessments due at closing of the loan.
-

## III. RECORD MAINTENANCE & SELLER ANNUAL RECERTIFICATION

### 2.6 RECORD MAINTENANCE

Seller must maintain a copy of each mortgage loan file sold to Acra. The file must be kept for a minimum of five (5) years from the date of purchase by Acra or longer, as required by applicable law.

### 2.7 SELLER RECERTIFICATION

Acra will perform an annual review of Seller's performance for the preceding year to determine recertification of Seller's eligibility.

Within 120 days following the end of Seller's fiscal year, Seller must file with Acra annual financial statements accompanied by an unqualified opinion of Seller's independent certified public accountants stating that the statements were prepared in accordance with generally accepted accounting principles applied on a consistent basis.

#### Periodic Update of Application Information

Acra periodically updates the information as supplied by Seller in its Application Package. Seller must furnish Acra the updated information upon request, which may include the following:

1. Copies of current lending licenses or exemption certificates from states in which Seller conducts business. Seller's conducting in a regional or multi-state lending operation may substitute a copy of Seller's licensing report, including licensing numbers with expiration dates for all states, as applicable.
2. Audited financial statements detailing the last full fiscal year.
3. Copies of the Errors and Omissions Insurance Policy and Fidelity Bond renewals reflecting a minimum \$1,000,000 coverage requirement.
4. Resumes of principals, management and operations personnel hired since the original approval or last re-certification.
5. Copies of any regulatory internal and external audit results or inquiries.
6. Letter of explanation for any and all current or ongoing corporate litigation.
7. Letter of explanation for all repurchase requests within the past 12 months and any outstanding repurchase requests.

### 2.8 MATERIAL CHANGES

Seller must immediately report to Acra any change in its business operations, financial condition, insurance coverage, properties or assets since the date of its latest submitted financial statements, if such change could have a material adverse effect on Seller's ability to perform its obligations hereunder.

### 2.9 TERMINATION OR SUSPENSION OF SELLING PRIVILEGES

Acra may at any time suspend or terminate Seller's selling privileges with or without cause. Following suspension or termination, Acra will retain the right, but shall in no way be obligated to continue to purchase mortgage loans from Seller. Acra will determine the length of time that selling privileges are suspended and prescribe terms and conditions that must be satisfied by Seller prior to reinstatement. If Acra suspends or terminates selling privileges, Acra may at the same time take whatever other action it deems necessary and appropriate to protect its interests and enforce its rights. Unpurchased loans with Conditional Loan Approvals from Acra will also be suspended.

## **SECTION 3 – GENERAL UNDERWRITING**

### **3.1 UNDERWRITING PHILOSOPHY**

Acra originates loans to borrowers on a variety of property types. This section describes the underwriting philosophy and general underwriting guidelines applied to all mortgages during the origination process. Acra reserves the right to modify these underwriting guidelines in its sole discretion and without prior notice.

The soundness of a loan is dependent on the applicant's ability to repay the debt, verifiable credit history, and the market value of the property. All property values are supported by appraisal reports completed by appraisers that are licensed or certified in the state where the property is located.

All loans are reviewed by authorized underwriters to ensure the loan file documentation complies with Federal and State regulations and all loans are approved or denied based on the underwriting standards and guidelines set forth in this Guide.

Each loan is individually underwritten with professional judgment. Acra's underwriting objective is to remain uninfluenced until the loan analysis is complete, at which time a definitive decision is rendered. The applicant's past, and present payment history, employment and income, assets, liabilities, and property value are all critical factors considered during the underwriting review process. All loans are reviewed for accuracy, credit discrepancies, income contradictions, and misrepresentations during the underwriting process. The loan package must be documented as required for the loan program and must contain sufficient information to render an informed and knowledgeable decision.

### **3.2 FAIR LENDING STATEMENT**

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Acra is fully committed to operating within all applicable fair lending and regulatory compliance requirements. All credit decisions are made without regard to race, color, national origin, sex, age, religion, marital status, sexual orientation, disability, or any other basis prohibited by law.

Acra will maintain established procedures designed to reflect its commitment to fair lending and regulatory compliance in conformity with safe and sound lending practices.

### **3.3 MAXIMUM FEES**

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Acra will not purchase any loan where the total combined Lender Fees and Broker Fees exceed limits as designated per program to the gross loan amount for loan requests or the maximum allowed under applicable state laws and predatory lending practices. Non-grossed up third-party fees are not included.

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### I. EXPIRATION OF CREDIT / COLLATERAL DOCUMENTS

<b>CREDIT REPORT</b>	90 days as of the date the documents are signed by the borrower(s) (i.e.: the "Closing" in wet states or "Signing" in dry states). No gap report or explanation of new inquiries required.
<b>VERIFICATION OF MORTGAGE / RENT</b>	30 days as of the date of funding.
<b>PAYOFF DEMAND</b>	29 days as of the date of funding or such other date as determined by the Payoff Demand that identifies a "valid through" date. Acra may also have the capacity to obtain verbal confirmation to update the "valid through" date.
<b>WRITTEN VERIFICATION OF EMPLOYMENT</b>	30 days as of the date of funding.
<b>PAY STUBS</b>	Less than 30 days as of the date of funding or 31 days for borrowers who are paid once monthly.
<b>BANK STATEMENTS (INCOME)</b>	45 days from the statement ending date as of the date of funding (cannot use an online transaction history to update income).



<b>BANK STATEMENTS (VERIFICATION OF FUNDS / ASSETS)</b>	30 days as of the date of funding.  Statement may be 45 days and an online transaction history as of the date of funding or final escrow deposit may be used to document an updated balance; must have most recent two (2) months consecutive statements for LTVs >65%.
<b>PRELIMINARY TITLE REPORT / COMMITMENT REPORT</b>	90 days as of the date of funding.
<b>APPRAISAL</b>	120 days as of funding, but may be extended to 180 days with an appraisal re-certification.
<b>BROKER PRICE OPINION (BPO)</b>	90 days as of funding.
<b>VERBAL VERIFICATION OF EMPLOYMENT</b>	An Applicant who is a wage earner with qualifying income requires a verbal verification of employment ("VVOE") conducted by Funding Department within ten (10) calendar days prior to "Closing" in wet states or "Signing" in dry states.
<b>CONSUMER DEBTS</b>	Creditor statement issued within 90 days or less prior to the closing of file.
<b>CLOSING PROTECTION LETTER (CPL)</b>	30 days from the date issued; must be valid through date of funding.
<b>HAZARD INSURANCE DECLARATION PAGE</b>	Funding to occur (i) prior to a present expiration date on the Dec Page or (ii) within 30 calendar days of its issuance

## II. BORROWER ELIGIBILITY

### **3.4 ELIGIBLE BORROWERS**

Acra funds loans made to natural persons who are citizens and / or legal residents of the United States and natural persons who are Permanent Residents of the United States. Natural persons must have reached the age of majority in the jurisdiction where the subject property is located.

Individual Tax Identification Number ("ITIN") Borrowers may be eligible for the Non Prime program as consistent with §3.9.

Foreign Nationals may be eligible for financing on business purpose transactions (i.e.: investment properties) as consistent with §3.10.

Business Entities may be eligible for financing on business purpose transactions (i.e.: investment properties) as consistent with §3.12.

Non-permanent Resident Aliens are borrower(s) (i) on a VISA or (ii) have a Social Security Number and an unexpired Work Authorization. They may be eligible for a loan with Acra on a case-by-case basis and based on the type of VISA and compensating factors.

As CSC services loans, reports the transaction on consumer's credit, and offers loans to qualifying applicants with multiple and differing legal status, origination file will need to document:

- For each Applicant, a copy of at least one government issued picture identification (i.e.: US State driver's license, US or foreign Passport, US Military ID, Permanent Resident Card); and
- A copy of (i) Social Security Card (not required where an SSA-89 or 4506-C / - T is obtained from, respectively, the Social Security Administration or Internal Revenue Service) or (ii) the Applicant's ITIN letter (CP565 Notice) issued by the Department of Treasury / Internal Revenue Service.

### **3.5 INELIGIBLE BORROWERS**

Acra will not fund loans made to:

Churches or loans processed and submitted by Mortgage Brokers and / or their employees for their personal loan requirements (see also §23.22).

Foreign Nationals are not allowed on a consumer transaction basis.

Any criminal convictions or criminal adjudications, regardless of age, that involves any aspect of fraud, misrepresentation, financial crimes, or are considered acts of moral turpitude, will render the loans ineligible. Pending criminal charges that carry any potential incarceration or involve fraud / misrepresentation or acts of moral turpitude must be resolved (dismissed or exonerated) prior to closing. Felony convictions or felony adjudications regardless of age make the loan ineligible.

### **3.6 CO-SIGNER AND GUARANTOR**

Co-signers or guarantors are permitted on a case-by-case basis. A co-signer or guarantor is an individual whose income and credit are considered in qualifying and is contractually liable for repayment of the debt. However, the co-signer does not reside nor have a vested interest in the subject property, but will take title along with the resident borrower.

### 3.7 CITIZENSHIP

#### Citizen

A person born in the United States or a person who legally acquired citizenship in the United States.

#### Permanent Resident Alien

A person who is not a United States citizen and is legally able to maintain a permanent residency in the United States.

#### Non-permanent Resident

A person who is not a United States citizen and resides in the United States under the terms of a temporary VISA.

#### Non-Resident Alien

A person who is not a United States citizen and has no lawful residency status in the United States.

### 3.8 PERMANENT RESIDENT ALIEN

Acra will fund loans made to lawful permanent residents of the United States under the same terms available to United States citizens, provided the following requirements are met:

- Have a valid passport or photo identification from their country of residence; and
- Can prove current residence address(s) for the past two (2) years.

### 3.9 INDIVIDUAL TAX IDENTIFICATION NUMBER ("ITIN") BORROWERS

Individual Tax Identification Number ("ITIN") Borrowers may be eligible under the following measured circumstances:

- To a maximum LTV / CLTV as described on the Program Matrix;
- To a maximum loan amount of \$1M; and
- Qualify Full Doc, 12-Month or 24-Month Bank Statement, or ATR-in-Full for Owner Occupied Properties or DSCR+ with a ratio as prescribed by the program for Investment Properties.

When qualifying as Full Doc, ITINs may utilize a written VOE dated within 30 days of funding in lieu of a paystub and W-2s / tax returns, as otherwise required for Full Doc. In supplement, file should also document the most recent bank statement that includes ACH / Direct Deposit of payroll as validation to the written VOE.

Non-Permanent Resident Aliens, where otherwise allowable under §3.4, would also be underwritten to this sub-section.

### 3.10 FOREIGN NATIONALS

#### FOREIGN NATIONAL ELIGIBILITY

Foreign Nationals are eligible for financing on business purpose transactions only (i.e.: investment properties).

Borrowers eligible under the Foreign National Program are:

- Non-Resident Aliens who are not authorized to live or work in the U.S. A true Foreign National may periodically visit the U.S. for various reasons including vacation and / or business, may purchase property for either personal use or investment, or may own a U.S based business entity, but they must reside outside of the U.S.
- Borrowers who are holders of Individual Tax Identification Numbers (ITIN) may be considered on a case-by-case basis for this program if they reside outside of the U.S.
- Due to market exchange rates, applicants are to be reviewed with scrutiny toward a post-close financial position and their ability to mitigate exchange rate fluctuations.

#### PROGRAM SPECIFIC DOCUMENTATION

##### 1. Assets Held / Foreign Accounts:

- Must be verified in U.S. Dollar equivalency at the current exchange rate via either [www.xe.com](http://www.xe.com) or the Wall Street Journal conversion table.
- Sufficient funds to close must be on deposit with the Escrow / Closing Agent at least three (3) business days (including Saturdays for this calculation) prior to any closing date.
- A copy of the two (2) most recent statements of that account are required. If the funds are not seasoned a minimum of sixty (60) days, a letter of explanation is required along with the information to comprise a sixty (60) day chain of funds. Bank statements in any language other than English must be translated into English.

##### 2. Credit References:

In order to comply with Anti-Money Laundering ("AML") and Office of Foreign Asset Control ("OFAC") requirements, one of the following will be required:

- A U.S. credit report with at least two (2) trade lines with minimum age of two (2) years for one trade line; or
- An international credit report; or
- An original credit reference letter from an internationally known financial institution. The reference letter does not need to include details or payment histories of debt obligations located outside of the U.S.; or
- A bank statement documenting a foreign financial banking relationship for the past 60-days may be utilized in this section.

Due to OFAC, Acra will not lend to applicants from:

- Afghanistan;
- Belarus;
- Cuba;
- Iran;
- Iraq;
- Libya;
- North Korea;
- Russia;
- Somalia;
- Sudan;
- South Sudan;

- Syria;
- Venezuela; or
- Yemen.

Acra may consider these applicants on a case-by-case basis where established foreign occupancy and a clear OFAC review are present.

### **SPECIFIC CLOSING DOCUMENT REQUIREMENTS**

Each of the following must be met:

- A copy of current Passport, Visa, or ITIN.
- All loans must be closed with a title and closing agent approved and /or vetted by Acra.
- Power of Attorney is acceptable provided it conforms to Acra requirements and is acceptable to the title company.
- Documents signed outside of the U.S. may be notarized by a U.S. embassy or consular official. The certificate of acknowledgement must include the embassy or consular seal and be acceptable to the title company.
- For documents signed in a country that is party to the "Hague Convention Treaty Abolishing the Requirement of Legalization for Foreign Public Documents" a certificate of acknowledgment completed and signed by a notary public authorized or commissioned to perform such duties plus authentication by apostle in English and attached to the executed documents and certification of acknowledgement with title company acceptance is agreeable to Acra.
- Executed W-8 (BEN) IRS form.

### **3.11 Co-Borrower**

A co-borrower is anyone other than the primary borrower, including the borrower's spouse qualifying for the loan. Acra will fund loans with co-borrowers provided all parties sign the Note and Mortgage / Deed of Trust and take title to the property.

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### 3.12 BORROWING ENTITIES

Business Entities are eligible for financing on business purpose transactions (i.e.: investment properties exclusively).

#### 1. Borrowing Entity Requirements

Acra requires all individuals with direct or indirect ownership  $\geq 20\%$  to provide a recourse guarantee (Acra approved or may use Exhibit 7) in the case of an entity borrower. All recourse is joint and several in the case of multiple guarantors.

The Borrowing Entity must be a single purpose entity (SPE). Acra defines a SPE as an entity with no assets other than residential investment or rental properties; engaged in the business of owning and operating residential investment or rental properties. Series limited liability companies are not allowed.

All entities that will hold direct ownership of the subject property and will be on title as a direct owner are required to be a borrowing entity.

#### 2. Borrower / Guarantor Types

Acra will lend to, and require that title to the collateral be held, either (i) directly by an individual person(s) or (ii) by an entity acceptable to Acra in its sole discretion as further detailed herein.

Acra requires at least one guarantor to have prior homeownership experience. At least one (1) borrower / guarantor on the loan must attest on the application that they are not a first-time homebuyer. If prior home ownership is not evident within the loan file documentation the underwriter reserves the right to condition for supporting documentation.

##### A. Entity / Guarantor Types Allowed

Domestic Corporations (C and S Corp); single purpose Limited Liability Companies (LLC), excluding series LLC; Limited Liability Partnership (LLP); Limited Liability Limited Partnerships (LLLP); General Partnership (GP); Limited Partnership (LP), and Sole Proprietorship are eligible. In all events, the Borrower must be a US formed and based Entity, foreign entities (i.e.: entities formed or based outside the US) or foreign owned entities are not allowed.

##### B. Business entity nesting is limited to only one (1) wholly-owned subsidiary that in turn must be owned by individual(s); multiple nesting or ownership by multiple entities, trusts, etcetera are not acceptable.

##### C. Entity / Guarantor Types Not Allowed

Cooperatives, Irrevocable Trusts, IRAs, Non-Profit, and Joint Ventures are not allowed.

##### D. Entity Documentation Requirements

Entity Documentation requirements are as follows (as applicable): The below documents are required, without exception, and borrower letters stating that they are not required, available, or excused from providing such documents are not acceptable.

- Complete, legible copy of the Certificate of Formation / Articles of Organization and all amendments thereto;
- Complete (with all referenced exhibits), legible copy of the Operating Agreement for LLCs and Partnerships, or Bylaws for corporations and all amendments thereto that includes statement whether it is member

- or manager managed, contains authorization to borrow money, enter into contracts for mortgage assets, and designates signers;
    - Additional information may be required in the event there is any conflict between the terms in the formation documents and Operating Agreement or Bylaws.
  - All documentation evidencing ownership interest(s) in the entity, which may be evidenced as follows:
    - For LLCs and Partnerships, the Operating Agreement must identify or attach as an exhibit, all person(s) by name with their representative ownership interest in the LLC or provide copies of the Membership interest certificate(s) / unit(s) in compliance with requirements noted in the Operating Agreement.
    - For S or C Corporations, shareholder / stockholder certificates that comply with the requirements noted in the Bylaws, if any, or if stock certificates are lost or unavailable, the corporation's stock ledger; the stock certificate or ledger must account for all of the outstanding shares noted in the Certificate of Formation / Articles of Organization, including those held by the corporation.
    - If stock certificates are lost, destroyed, mutilated, or otherwise unavailable, an Affidavit of Lost Stock Certificate will be required.
    - For S-corporations or Partnerships, in the event both stock certificate and stock ledger are unavailable, borrower may provide (i) the most recent preceding tax year's K-1 statement for all members with 20% or more interest; and (ii) a letter from the CPA affirming that current ownership interest in the corporation, and if preceding year's taxes have not been filed a statement attesting to that affect.
  - Names on the entity documents must match the identification;
    - If the names do not match the identification exactly, a letter of explanation will be required to address the name discrepancy.
  - Certificate of Good Standing or equivalent document valid within ninety (90) days of the closing date;
  - Certificate of Foreign Qualification or other qualification to operate in the state where business is being conducted (if entity is formed in a state other than where business is being performed or where the property is located);
  - IRS Form SS4 or Federal Taxpayer Identification Number ("TIN") or Employer Identification Number ("EIN") issuance letter for the entity;
    - Generally, the IRS requires all business to have an EIN, with limited exception for sole proprietors, entities without employees, etcetera. EIN exception requests may be submitted for review by Acra's Legal Department with a letter of explanation stating applicable grounds for consideration of the exception;
- and
- A Unanimous Written Consent / Board Resolution signed by all members regardless of their percentage of interest (i) authorizing the transaction with Acra Lending, and (ii) identifying the authorized to sign the loan documents on behalf of and to bind the entity.
    - A Unanimous Written Consent / Board Resolution may be required based on the terms of the Operating Agreement or Bylaws even where ownership is held by one individual.
    - A Unanimous Written Consent / Board Resolution cannot be used to designate a signor on a personal guarantee only an authorized signor for the loan documents to be signed by the entity.



- A Power of Attorney must be utilized by the principal to designate an attorney in fact to execute a personal guarantee. See Power of Attorney requirements in [Section 23.5\(C\)](#).

Legal reserves the right to condition for additional supporting documentation as determined in its sole discretion.

### 3. Borrower & Guarantor Due Diligence Requirement

Borrower / Guarantor Due Diligence (DD) as described above is required to be current as of the date of any loan approval or draw as outlined below:

CRITERIA	ENTITY	PERSONAL GUARANTOR ("PG")
DD Required	≥ 20% direct or indirect interest or managing control (if an LP and regardless of percentage owned, the highest majority Partner amongst the GPs must have credit pulled AND be a PG)	All borrowers, guarantors, owners (with ≥ 20% direct / indirect interest), and managing control (if an LP and regardless of percentage owned, the highest majority Partner amongst the GPs must have credit pulled AND be a PG)
Country Domiciled	U.S.	-
Can be a guarantor	No (Individuals Only)	Yes
Required – for Non-Guarantor (in the case of LLC)	OFAC Background / Litigation Search	OFAC Background / Litigation Search
Additional required documentation for Guarantor(s)	Not Applicable	Credit Report Statement of net worth (per application) Verification of minimum liquid assets (if required)
Guarantor Minimum Qualifying Credit Score	Not Applicable	As required on Program Matrix
Minimum Credit Score for all Borrowers / Guarantors	Not Applicable	As required on Program Matrix
Bankruptcy	None in past 24 months	None in past 24 months
Foreclosure, Short Sale, Deed-in-lieu	None in past 24 months	None in past 24 months
Mortgage late payments	None permitted at closing	None permitted at closing
30-day late mortgage payments	None in past six (6) months; no more than one (1) in past 12 months	None in past six (6) months; no more than one (1) in past 12 months
60+day mortgage late payments	None in past 24 months reporting on credit	None in past 24 months reporting on credit
Other secured entity debt	Permitted	Permitted

#### 4. Background Check Requirements

In order to determine the acceptability of the application, Acra reviews the background of (i) in the case of entity borrowers, (x) the entity and (y) the recourse guarantor(s), and (z) any party (individual or entity) that owns 20% or more of the entity directly or indirectly or has managing control; and (ii) in the case of an individual(s) as direct borrower(s), all such individuals (collectively, with respect to (i) and (ii) the "Key Principals and Entities").

Acra may order background checks on all Key Principals and Entities from Checkpoint, LexisNexis or another comparable provider that includes: criminal history, OFAC searches, litigation, judgment, and lien searches.

#### 5. Revocable Living Trust

Title vesting in an inter vivos revocable trust is permitted when the requirements set forth below are followed:

- A complete, legible copy of the Trust or a Certification of Trust;
- A Certification of Trust must contain the following information:
  - The existence and date of the Trust;
  - The Trustor(s) and the current Trustee(s);
  - The powers of the Trustee;
  - Whether the Trust is revocable; and, if revocable, who holds the right to revoke;
  - The names and number of the Trustees required to sign on behalf of the Trust;
  - The Trust identification number, whether that is a Social Security number, or an IRS issued Tax Identification Number;
  - How title to the Trust assets should be taken; and
  - A statement that the Trust has not been revoked, modified, or amended in any manner;
- The Trust must be valid under the laws of the state in which the Trust is established;
- The Trust must be revocable, meaning the Trust can be changed or canceled at any time for any reason, during a Trustor's lifetime;
- Irrevocable trust is not permitted;
- The Trust must be established by one or more natural persons, solely or jointly, known as a Grantor, Trustor, or Settlor;
- The Trust must become effective during the lifetime of the person(s) establishing the Trust;
- The primary beneficiary of the Trust must be the individual(s) establishing the Trust, known as the Grantee or Trustee;
  - Written exception by Acra Senior Management must be obtained if the Trustor(s) and Trustee(s) are not the same;
- The Trust must specify that:
  - The Trustee must have the power to hold the title, and mortgage the property;
  - The beneficiary does not need to grant written consent for the Trust to borrow money. If consent is required, consent has been granted in writing for purposes of the mortgage;
  - There is no unusual risk or impairment to the lenders' rights; and
  - Holding title in the Trust does not diminish the lenders' rights as a creditor.

Legal reserves the right to condition for additional supporting documentation as determined in its sole discretion.

### **3.13 FIRST TIME HOME BUYER**

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Acra will consider loans for First Time Home Buyers ("FTHB") provided they do not have, for a primary residence purchase, a payment shock of greater than three times (3X) that of their current rental payment. If a borrower is not currently paying any monthly rental payments or the transaction is for an investment property, shock does not apply.

If an FTHB, for a primary residence purchase, is absent a complete rental history for the prior twelve (12) consecutive months, or is currently not paying any rent, that borrower is limited to:

- (a) 70% maximum LTV;
- (b) 43% maximum DTI; and
- (c) Qualifying income with Full Doc or 12-Month Month Bank Statement Programs.

An FTHB may also purchase an investment property utilizing the DSCR program. However, if an FTHB, for an investment property purchase, is absent a complete rental history for the prior twelve (12) consecutive months, or is currently not paying any rent, that borrower is limited to:

- (d) 70% maximum LTV; and
- (e) Minimum 1.0 : 1.0 DSCR.

Acra defines a FTHB as an application where all Applicants have never previously owned a home (real property).

Exclusively for the purpose of determining payment shock, Acra will utilize the first scheduled monthly payment in the calculation. This may be fully amortized OR Interest Only, based on the Note. Further, property taxes, hazard insurance, and homeowner's association dues, whether escrowed or not, should be taken into consideration.

### **3.14 NON-OCCUPANT CO-BORROWER**

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Acra will consider loans to non-occupant co-borrowers on a case-by-case basis.

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### 3.15 ADDING BORROWERS TO TITLE

A non-occupant co-borrower ("new co-borrower") being added concurrently to title must meet the following requirements:

1. The original vested borrower's debt-to-income ratio may not exceed 55% of the total monthly payments (i.e.: monthly PITI payment of subject property and his or her other monthly obligations).
2. The original vested borrower(s) must occupy the subject property as his / her principal residence.
3. The new co-borrower's credit and income must be relied on in part for qualifying purposes.
4. The new co-borrower(s) must execute all loan documents required for the loan program.
5. The new co-borrower(s) must be concurrently added to title through closing.

NOTE: If the borrower's spouse or an occupant co-borrower is being added concurrently to title, the above restrictions numbers 1, 2, and 3 do not apply. Non-occupant co-borrowers will be considered on a case-by-case basis.

Original Vested Borrower – must have a vested interest in the subject property (i.e.: must be currently vested on title to the subject property and be the mortgagor on any liens secured by the subject property).

#### **Non-Borrowing Vested Owners**

For refinance transactions, non-borrowing vested owners can remain on title with the borrower and retain their percentage of ownership as it is currently recorded. The non-borrowing vested owner will be required to sign the security instrument and be considered title only.

Adding a non-spouse to title, who is not already an owner of record, is not permitted. A non-borrowing vested owner is not required to be on the evidence of insurance or closing protection letter, however, it is acceptable if said non-borrowing vested owner is listed these items.

### 3.16 NON-BORROWING OR NON-TITLED SPOUSE

A non-borrowing spouse is the borrower's spouse whose credit and income are not considered for qualifying. A non-borrowing spouse may or may not be currently vested on title to the property.

A non-titled spouse is the borrower's spouse who currently is not vested on title to the property. If the borrower's spouse is to be added to title through the subject transaction, he or she must be included in the qualifying process and execute all required loan documents.

A non-borrowing spouse and a non-titled spouse not being added to title must execute certain documents to evidence that the spouse is relinquishing all rights to the property if so required to perfect the lien under governing law and must also execute a concurrent Quit Claim Deed or Grant Deed.

A non-borrowing spouse can remain on the purchase contract and go on title at the closing of a purchase transaction. Additionally, it is permissible to add a non-borrowing spouse to title on a refinance transaction. A non-borrowing spouse is not required to be on the evidence of insurance or closing protection letter, however, it is acceptable if said non-borrowing spouse is listed these items.

**3.17  
MORTGAGE  
BROKER OR  
EMPLOYEE OF A  
MORTGAGE  
BROKER**

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Acra will fund loans made to self-employed mortgage brokers and their employees or borrower's whose employment / income is affiliated with the residential mortgage industry (i.e.: realtor, loan officer, and account executive). For all such borrowers, the loan packages must be processed by nonaffiliated third-party Mortgage Brokers.

**3.18  
NUMBER OF  
LOANS TO ONE  
BORROWER**

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Acra limits the number of open loans with the same borrower at any one time to a maximum of four (4) or an aggregate amount of \$5,000,000, whichever is less for first mortgages only. If there are more than three (3) loans to one borrower:

- One (1) loan must be on an owner-occupied principal residence. The appraisal may not include comparable sales from other properties owned by the borrower(s).
- Adjoining properties or units in the same condominium complex are limited to a maximum of two (2) loans.
- For multiple investment loans to one borrower, the borrower(s) should have demonstrated a history of successfully owning and managing investment properties for at least two (2) years. The loan file must include rental agreements and / or tax returns as required by the loan program or required at the discretion of the underwriter.

**3.19  
ROUNDING LTV**

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The loan-to-value is determined by dividing the loan amount into the property value. For property value determination refer to Property Ownership / Seasoning and Property Value Determination in this section of the guide.

The loan-to-value (LTV) is rounded up to the nearest number:  
Example: 73.46% = 74.00%

**3.20  
PROPERTY  
OWNERSHIP /  
SEASONING**

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Properties that have sold more than once in the previous twelve (12) months must be prudently analyzed for value discrepancies and to ensure the property has not been involved in a "pyramid or flip" scheme. A "pyramid or flip" scheme is initiated in an effort to inflate property values within a certain market area. Examining recent changes to title on the property and information disclosed on the appraisal report may uncover possible "pyramid or flip" schemes.

- Seasoning requirements may apply on purchase or refinance transactions when determining the current value for properties that have experienced the following;
- Recent and / or frequent change(s) of ownership;
- Refinance where the property is not currently vested in the owner's name; or
- Recent property transfer data (i.e.: REO resale data as shown on the appraisal report) that does not support the appraised value.

Generally, an applicant that is added to title via quit claim must be on title for at minimum 90 days before applying for a refinance transaction with case-by-case exceptions for inheritance, divorce, etcetera.

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### 3.21 PROPERTY IMPROVEMENT / SEASONING

If the borrower purchased the subject property less than six (6) months ago, the lower of the purchase price or the appraised value must be used for determining the loan-to-value. The only exception to this determination is when the appraised value is higher than the purchase price and improvements have been made to the subject property. In that case, documentation must be provided by a third-party contractor stipulating what improvements have been done and at what cost. Once itemized, such costs may be added to the purchase price to arrive at a property valuation. In no case can such a value exceed that of the appraised value.

### 3.22 PROPERTY VALUE DETERMINATION

(ADDITIONAL  
INFORMATION,  
REFER TO  
CONSTRUCTION –  
PERMANENT  
FINANCING OR  
LEASE OPTION TO  
PURCHASE)

For first mortgage transactions, the value for determining the loan-to-value ratio is as follows:

#### 1. Purchase Transaction

Value of the subject property is the lesser of:

- The appraised value
- The purchase price

The appraisal determines the appraised value. The executed purchase agreement or HUD-1 determines the sales price.

#### 2. Refinance Transaction

##### a. Property purchased twelve (12) months or more

If the borrower purchased the subject property, twelve (12) months or more, the appraised value will be used for determining the loan-to-value.

##### b. Property purchased less than twelve months or ownership changed within the previous 12 months

If the borrower purchased the subject property less than twelve (12) months or the property changed ownership within the previous twelve (12) months the value for determining the loan-to-value will be the lesser of:

- Lowest transfer value in the previous twelve (12) months OR
- Appraised value

### OFFICIAL INTERPRETATION

The immediately above two guidelines (§3.21-3.22) may seem to conflict; however, Underwriter should take care to break out value seasoning in this manner, based on differentiating to (a) improvements or (b) none to the condition of the subject that existed at initial purchase:

Time from Original Purchase	§3.21 Property is Improved since Purchase, value is based on:	§3.22 Property is in same Condition as when Purchased, value is based on:
0-6 Months	Purchase Price + Documented Receipts for improvements*	Purchase Price*
6-12 Months	Appraised Value (list improvements)	Purchase Price*
>12 Months	Appraised Value	Appraised Value

\*In no case can such a value exceed that of the appraised value.

Underwriter has discretion to determine if the capital improvements warrant an increase to value.

### **3.23 PREPAYMENT PENALTIES**

A Prepayment Penalty ("PPP") is a fee charged to certain borrowers who prepay their mortgage earlier than scheduled. Acra utilizes a hard sequential stepdown PPP based on the loan balance at the time of prepayment. See Rate Matrix for specific details.

Acra will apply a PPP to the following transactions:

- Purchase or Refinance of a Non-Owner Occupied; or
- Any Business Purpose loan request.

PPPs are not applicable on consumer transactions on a borrower's primary or secondary residence or when prohibited by applicable Federal, State, or Local regulations.

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## **III. PURCHASE MONEY**

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A purchase money transaction is a transaction in which the proceeds from the loan are used to finance the acquisition of the property. Transfer(s) of title to the property in the twelve (12) months preceding the listing should be investigated for property flips and / or non-arm's length transactions. Any relationship or concessions between the purchasers and sellers, appraisers or realtors should be fully disclosed in writing, at time of application.

### **3.24 PURCHASE / SALES CONTRACT**

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A purchase money transaction must include a fully executed agreement of sale and counteroffer (if applicable) reflecting the following:

- Borrower as the purchaser of the property (borrowers / purchasers reflected as "or assignee" is not allowed);
- Seller as the vested owner on title;
- Correct address of the property;
- Correct sales price;
- Amount of down payment;
- Closing dates; and
- Concessions and seller contributions.

Note: If only one realtor represents both the buyer and seller a copy of the MLS property listing or a posting from a commercially controlled Web site page is required.

### **3.25 SELLER DISCLOSURE**

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The Seller Disclosure must be obtained if a requirement of the purchase contract. The disclosure should be reviewed for any significant deferred maintenance and / or structural deficiencies that may require repair or correction prior to closing.

Satisfactory proof of any repairs and / or corrections must be obtained and included in the loan file.

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### 3.26 HUD REO PURCHASE

The following requirements must be met for all HUD REO purchase money loans:

- Complete purchase contract / agreement showing all terms of the sale, (i.e.: down payment, amount of first mortgage and any secondary financing) to ensure the purchase is a typical transaction.
- All required inspections and / or disclosures.
- An independent third-party inspection from a licensed contractor or certified building inspector to determine the interior and exterior condition of the property. This inspection may be waived by Senior Management if the listed repairs are less than the lower of (i) \$5,000 or (ii) 2.5% of the reconciled property value.
- Completion of any and all repairs based on the sales contract and / or inspections. A Certificate of Completion (Form 442) including photos of all repairs must be completed by the original appraiser.
- The appraisal report must include interior photos.

### 3.27 FINANCING CLOSING COSTS

The guidelines for financing closing costs are:

#### **Purchase Money**

Closing Costs may not be financed as part of any Purchase Money Financing unless a limited cash-out lease option to purchase meeting the requirements of the appraised value versus the purchase price bring utilized for LTV purposes.

#### **Rate / Term Refinance**

Reasonable and customary closing costs (including prepaid items) may be financed, including the maximum incidental cash to the borrower as allowed for the program and / or type of transaction (reference §3.31).

#### **Cash-out Refinance**

There is no limit on the amount of closing costs that may be financed as part of a cash-out refinance.

### 3.28 MAXIMUM CONTRIBUTIONS

#### **Owner Occupied**

Limited to non-reoccurring closing costs ("NRCC") only by seller.

- ≤ 65% CLTV max 6.0%
- > 65% CLTV max 3.0%

#### **Non-owner Occupied & Second Home**

Limited to NRCC only by seller. Max 3.0% regardless of LTV.

#### **Non-seller Contributions**

Contributions from a real estate agent / broker or mortgage originator may be allowed as long as max percentages above are not exceeded for total contributions paid in behalf of the borrower and dollar amount does not exceed the dollar amount of NRCC's.

#### **Excessive Contributions**

Contributions in excess of the above stated limits are allowable; however, the excess of the contribution(s) must be subtracted from the purchase price for the calculation of LTV / CLTV.

#### **Not Allowed**

Allowances for any repairs, item replacement, condition of property, or recurring closing incentives are not allowed and must be subtracted from the purchase price for the calculation of LTV / CLTV.

### IV. REFINANCE TRANSACTIONS

#### 3.29

##### RATE / TERM

A rate and term refinance transaction involves the repayment of an existing debt from the proceeds of a new mortgage. A rate and term refinance may include the payoff of:

- First mortgage secured by the subject property;
- Junior liens secured by the subject property;
- Reasonable and customary loan costs / fees; or
- Marital settlement buy outs per court decree.

#### 3.30

##### DEBT CONSOLIDATION

A debt consolidation refinance transaction involves the repayment of an existing debt from the proceeds of a new mortgage. A debt consolidation refinance may include the payoff of:

- First mortgage secured by the subject property;
- Junior liens secured by the subject property;
- Reasonable and customary loan costs / fees;
- Controlled payoff of credit cards, installment loans, etcetera, unless stated otherwise for a specific program. The final settlement statement (CD / HUD-1) must show the payoff of credit cards, installment loans, etcetera; or
- The transaction would be considered a cash out refinance. See restrictions below.

#### 3.31

##### INCIDENTAL CASH OUT ON RATE AND TERM OR DEBT CONSOLIDATION REFINANCE TRANSACTIONS

The borrower may receive incidental cash back up to \$1,000.00 or 1.0% of the loan amount, whichever is greater, not to exceed \$5,000.00 on rate-and-term refinance transactions.

If the final settlement statement (CD / HUD-1) reflects incidental cash back to the borrower exceeding these limits, the loan will be considered cash out.

Should, at Closing, excessive cash be calculated as going back to the borrowers, but intention is to maintain classification as a R&T Refinance, cash can be contributed at Closing as a contribution to paying down principal. Maximum amount of principal paydown at Closing is limited to the lesser of 2% of the loan amount or \$2,500. If there is still too much cash-in-hand, a redraw is appropriate to reduce the loan amount.

Note: The Texas State Constitution has greater limitations for compliance to avoid classification as a Home Equity Loan (reference §3.50).

#### 3.32

##### CASH OUT

Cash out is any amount paid out of the settlement proceeds that is not applied to valid liens secured by the subject property and acceptable closing costs. A refinance of a property that is free-and-clear of any existing liens is considered cash out. Any type of IRS / income tax lien or other judgment that is attached to title is considered cash out.

#### 3.33

##### CASH-IN-HAND

Cash-in-hand is defined as the cash borrower will receive as it is shown on the Closing Disclosure or Final HUD. It does not encompass any liens, debts, or other items paid through closing including debt consolidation.

### V. PROPERTY INSPECTIONS

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**3.34  
PROPERTY  
INSPECTIONS**

All individuals performing inspections must be appropriately licensed within their field of expertise. Property inspections can be waived if both (i) buyer and seller agree and execute an Addendum concurrently to the execution of the Purchase Contract, and (ii) LTV ≤70%. Otherwise, inspections are required as stipulated in this section.

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**3.35  
TERMITE / PEST  
INSPECTION  
REPORT**

Termite / Pest Inspection Report must be obtained as follows:

- A requirement of the purchase contract (excluding new construction).
- If there is evidence of termite / pest or dry rot indicated in the appraisal report.
- A recommendation in the appraisal report.
- Termite / pest or dry rot damage is visible in the photos.
- Broker Price Opinion indicates that there is visible damage.

The report should be reviewed for any deferred maintenance and / or structural deficiencies that may require repair or correction prior to closing. A Clearance must be obtained on all repairs as required by the Inspection Report.

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**3.36  
ROOF  
CERTIFICATION**

Roof Certification must be obtained if ANY of the following apply:

- A requirement of the purchase contract;
- A recommendation in the appraisal report or Broker Price Opinion; or
- Disrepair is visible in the photos.

Roof certifications must certify that the remaining life of the roof is no less than five (5) years. No guarantee or warranty is necessary.

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**3.37  
WELL, SEPTIC,  
STRUCTURAL,  
GEOLOGICAL  
INSPECTIONS /  
REPORTS**

Well, Septic, Structural, Geological Inspections / Reports must be obtained if ANY of the following apply:

- A requirement of the purchase contract; or
- A recommendation in the appraisal report.

The report should be reviewed for any deferred maintenance and / or structural deficiencies that may require repair or correction prior to closing. A Clearance must be obtained on all repairs as required by the Inspection Report.

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**3.38  
THIRD PARTY  
HOME  
INSPECTIONS**

Third Party Home Inspections must be obtained if ANY of the following apply:

- A requirement of the purchase contract;
- A recommendation in the appraisal report; or
- Disrepair is visible in the photos.

The report should be reviewed for any deferred maintenance and / or structural deficiencies that may require repair or correction prior to closing. A clearance must be obtained on all repairs as required by the inspection report.

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## VI. OCCUPANCY

Underwriter should give due consideration to factors, including but not limited to, other real estate owned by the applicant, commuting distance to work, appraiser comments and notes, the location of the property and any difference between the mailing addresses on supporting documents and the subject property address to evaluate whether the occupancy status of the property as represented by the applicant is reasonable. Acra's security instruments generally state that owner-occupied properties are or will be occupied by the applicant within 60 days after the transaction's close.

### 3.39 OWNER OCCUPIED PRINCIPAL RESIDENCE

An owner occupied property is a one- to four-family dwelling occupied by the borrower(s) as his / her principal residence.

- Borrower occupies the subject as their principal residence. For a purchase transaction Borrower's stated intention to occupy the subject as their principal residence.
- Property location is relatively convenient to borrower's place of employment.
- Property possesses the physical characteristics to accommodate the borrower's immediate dependent family.

### 3.40 SECOND / VACATION HOME

A second / vacation home is owned and occupied by the borrower for some portion of the year, in addition to their principal residence.

- Timesharing, rental agreement ownership or two- to four-unit properties are NOT eligible as second / vacation homes.
- Treat a second / vacation home the same as an investment property for qualifying purposes.
- Property must be suitable for year-round occupancy.
- Property must not be subject to any rental pools or agreements requiring the rental of the property.
- A management firm does not control property occupancy.
- No more than one (1) second / vacation home per borrower is allowed.

Borrowers purchasing or refinancing a second / vacation home must execute a One- to Four-Family Rider as a part of the loan documents.

### 3.41 INVESTMENT PROPERTY (NON- OWNER OCCUPIED)

Investment property is a one- to four-unit residential dwelling or a unit in a condominium complex or a PUD owned by an individual who does not occupy the dwelling. The dwelling is leased and occupied as a principal year-round residence to individuals other than the owner.

- Vacant investment properties are not eligible for a refinance transaction.
- Acra limits the number of investment properties a borrower may own including subject to 20 properties, whether mortgaged or not.

All borrowers purchasing or refinancing a one- to four-family investment property must execute a One- to Four-Family Rider with loan documents and provide rent-loss insurance coverage. If the subject is qualified with the full PITIA payment, then no rent loss coverage will be required.

### VII. TRANSACTION TYPES

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#### **3.42 OTHER ELIGIBLE TRANSACTIONS**

Acra will make or purchase loans made under the following types of transactions:

- Refinance of Builder Spec homes where the Builder is still the titled owner or the Builder has a vested ownership interest in the property (i.e.: owns the company that is the titled owner of the subject property).
- Section 35 loan (Higher Priced Mortgages).

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#### **3.43 ARMS-LENGTH TRANSACTIONS**

An Arm's Length transaction occurs when the parties involved are entirely independent of one another. All parties deal with one another as strangers and have no reason to collude. If a direct relationship exists between any of the parties to a transaction, including the borrower / buyer, seller (if applicable), employer, lender, broker, or appraiser, then the transaction will be considered non-arm's length.

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#### **3.44 NON-ARM'S LENGTH TRANSACTIONS**

A non-arm's length transaction is a transaction in which two or more parties to the transaction are related or associated in any manner. Examples of non-arm's length transactions are:

- Buyer and seller are related or associated in business.
- Developer and buyer are related or associated in business.
- Broker and buyer or seller are related or associated in business.
- Seller is buyer's employer or vice-versa.
- Buyer is the real estate agent for the seller.

Non-arm's length transactions generally carry a higher risk and must be carefully analyzed for concealed credits, cash paid outside of escrow, double escrows, and other unacceptable lending criteria. The down payment must be fully sourced and satisfactorily documented.

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### 3.45 CONSTRUCTION- PERMANENT FINANCING

#### SINGLE FAMILY RESIDENCE (SITE BUILT)

The granting of a long-term mortgage, for the purpose of replacing interim financing for the construction of a new single-family residence, is considered a refinance transaction. A certificate of occupancy is required and final permits must be obtained in areas where required.

#### VALUE DETERMINATION AND LTV CALCULATION

Land Ownership  $\geq 12$  months

- Cash out as allowed for the program.
- The loan-to-value will be based on the current appraised value (fair market value) for both the land and the improvements.

Land Ownership  $\leq 12$  months

- Cash out is not allowed.
- The loan-to-value will be based on the on the lesser of the cost of land / site or a land value analysis from the appraiser, plus cost of the improvements or the Appraised value.

Cost Estimate Requirements are:

#### Cost of Land

Land value will be established or supported by either the HUD 1 or a land value analysis from the appraiser.

#### Cost of Unit

The builders cost estimate / breakdown utilized for the construction loan is required or a detailed list of construction costs and receipts for all construction items that are verifiable for the subject improvements.

### 3.46 FOR SALE BY OWNER (FSBO)

Arms-length transactions where there is no realtor commission being paid and no MLS listing require the following:

- The seller must be vested on title for no less than one (1) year;
  - Exception can be made if being sold by a contractor where property has undergone substantial capital improvement;
- Properties in foreclosure are not eligible;
- The buyer and seller cannot waive normal inspections for pest / termite or roof certification *after* these items were stipulated as part of the initial purchase agreement; and
- A copy of the inspection reports when completed.

### 3.47 INHERITED PROPERTY

The probate must be settled and closed and the property vested in the borrower's name. If the property is not vested in the borrower's name sufficient documentation clearly showing the chain of title and proof the borrower is vested on title to the subject property must be obtained and approved by underwriting prior to ordering loan documents.

### 3.48 INTERFAMILY TRANSFERS

Interfamily transfers are eligible for financing. The transaction must be a purchase or Rate and Term refinance with a gift of equity. Previous recent title transfers and properties in foreclosure are not allowed.

Transactions where the relinquishing party / giftor are residing in the subject property will be considered a straw transaction and not allowed.

### 3.49 LEASE OPTION TO PURCHASE

A Lease Option to Purchase is an agreement to lease a property for a specified period of time at an agreed upon monthly rent payment, in which a portion of the payments in excess of the market rents will be applied towards the down payment. Once the potential buyer has satisfied the terms of the down payment, he or she may execute the option to purchase the property at the sales price agreed upon in the Lease Option to Purchase Agreement. This may also be utilized for a "Land Contract" or "Contract for Deed" purchase. All Lease Option to Purchase transactions require the following:

- All parties to the transaction must execute the agreement;
- The agreement must disclose the time period of the option to purchase, amount of the earnest money deposit, and the terms of the monthly rent payments. The terms of the monthly rent payments must include a specific and reasonable amount (dollar amount or percentage) in excess of the monthly rent payments that will be credited towards the down payment via comparison to fair market rents (which requires a 1007 for UW review, reference [Section 14.14](#));
- Proof of the borrower's earnest money via a deposit (canceled check); and
- Copy of canceled checks (front & back) for the monthly rent payment covering the last twelve (12) months.

NOTE: Lease option transactions that do not involve an earnest money deposit or "sweat equity" including receipt(s) for materials and / or monthly rent in excess of proven market rents will not be considered a Lease Option to Purchase and must comply with standard purchase money requirements.

A Lease Option will always be a Purchase from the standpoint that the transaction will transfer ownership. This is relevant because it is therefore required to issue a Purchase form LE & CD (versus a Refinance form LE & CD).

However, in deference to the Purchase Price, as a separate calculation for the handling of LTV, under certain circumstances as defined below, Acra will calculate the LTV using the current reconciled market value in lieu of the purchase price.

The value for determining the loan-to-value ratio will be the PURCHASE PRICE reflected on the option agreement or the appraised value, whichever is less, if:

- The borrower's earnest money deposit is less than three percent (3.0%) of the sales price; OR
- The Lease Option Agreement is executed within the last twelve (12) months.

The value for determining the loan-to-value ratio will be the current reconciled MARKET VALUE, if:

- The borrower(s) has(have) occupied the subject property for the last twelve (12) months; AND
- The Lease Option Agreement is executed greater than twelve (12) months ago; AND
- The borrower(s) has equal to or greater than three percent (3.0%) of the sales price invested by:
  - Earnest Money Deposit; OR
  - The Optionee provided "sweat equity" in the form of property improvements with receipts for materials as well as a detailed list of all such improvements including time to completion.

Acra will consider a Lease Option for properties that are not the borrower's primary residence on a case-by-case basis.



### 3.50 TEXAS 50(A)(6) HOME EQUITY LOAN

A Texas 50(a)(6) loan is the specific designation given to any cash-out refinance on a primary residence in the State of Texas. It is named for the section in the Texas State Constitution that governs said transactions.

The transactions are highly and specifically regulated as follows:

- Total Points / Fees are limited to 2.000% of loan amount;
- Acra's minimum loan amount is \$100,000.00;
- Acra's maximum loan amount is \$1,500,000.00;
- Products available are any of Acra's 30-year fixed, 5/1 ARM, or 7/1 ARM; however, loans must be fully amortizing as interest-only is not allowed;
- Maximum cash out is subject to existing Acra Guidelines;
- Eligible properties include:
  - Single Family Residence (Attached / Detached);
  - Condos;
  - Planned Unit Development (Attached / Detached);
  - Modular Homes; and
  - Manufactured Homes (must be classified as real property);
- Ineligible Properties include:
  - 2-4 unit properties;
  - 1-unit property with an Accessory Dwelling Unit (ADU);
  - Condotels;
  - Short-Term Rentals;
  - Properties with two (2) or more kitchens; and
  - Properties greater than ten (10) acres;
- Maximum LTV / CLTV of 80%;
- No subordinate financing;
- Seasoning from a prior (a)(6) transaction cannot close until one (1) year and one (1) day have passed from prior transaction funding date;
- Eligible Borrowers include:
  - US Citizens; and
  - Permanent Resident Aliens;
- Required Documentation:
  - 12-Day Notice must be sent at initial disclosures and / or provided by Broker; and
  - Closing Disclosure must be delivered to borrower 24 hours prior to closing;
- Title Endorsements T42 and T42.1 are required in addition to standard applicable endorsements;
- Signing Must take place at Title's Office, the Attorney Office, or the Lender's Office;
- Signing via a Power of Attorney is prohibited;
- Waiver of Time:
  - The CD Waiting Period and / or Three-Day Right of Rescission cannot be waived under any circumstance; and
- Miscellaneous:
  - All non-titled, non-purchase money liens, which include but is not limited to, consumer debt payoff, delinquent property taxes, solar liens, any cash-in-hand to borrower are subject to Texas 50(a)(6) guidelines.

A Texas 50(f)(2) loan is the specific designation given to any refinance on a primary residence in the State of Texas where (i) the transaction pays off a previous Texas 50(a)(6) loan and (ii) there is no new cash out to the borrower. It is named for the section in the Texas State Constitution that governs said transactions.

- Transaction Type:
  - Rate / Term Refinance Only;



- 
- Maximum LTV / CLTV:
    - 80.0%;
  - No subordinate financing;
  - Points / Fees:
    - Must conform Acra Lending fee guidelines;
  - Acra's minimum loan amount is \$100,000.00;
  - Acra's maximum loan amount is \$1,500,000.00;
  - Products available are any of Acra's 30-year fixed, 5/1 ARM, or 7/1 ARM; however, loans must be fully amortizing as interest-only is not allowed;
  - Eligible properties include:
    - Single Family Residence (Attached / Detached);
    - Condos;
    - Planned Unit Development (Attached / Detached);
    - Modular Homes; and
    - Manufactured Homes (must be classified as real property);
  - Ineligible Properties include:
    - 2-4 unit properties;
    - 1-unit property with an Accessory Dwelling Unit (ADU);
    - Condotels;
    - Short-Term Rentals;
    - Properties with two (2) or more kitchens; and
    - Properties greater than ten (10) acres;
  - Eligible Borrowers include:
    - US Citizens; and
    - Permanent Resident Aliens;
  - Cash-Out Amount:
    - Borrower may not receive any cash-in-hand, nor may any non-titled liens or consumer debt be paid. Any excess cash once all lien payoffs and fees have been paid may be applied to the loan as a principal curtailment to meet the no cash-in-hand requirement;
  - Required Documentation:
    - 12-day notice to be sent at initial disclosures and / or provided by broker (must be signed by borrower(s)); and
  - Signing Must take place at Title's Office, the Attorney Office, or the Lender's Office;
  - Signing via a Power of Attorney is prohibited;
  - Waiver of Time:
    - The CD Waiting Period and / or Three-Day Right of Rescission cannot be waived under any circumstance; and
  - Miscellaneous:
    - Except as specified above, loan should conform to Acra Lending guidelines.

### 3.51 CONSOLIDATION, EXTENSION, AND MODIFICATION AGREEMENT ("CEMA") TRANSACTION

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A Consolidation, Extension and Modification Agreement ("CEMA") loan is an option available to New Yorkers that can reduce the cost to refinance a mortgage. CEMA loans allow borrowers to pay mortgage recording taxes on only the difference between the current principal balance and their new loan amount.

CEMA transactions are required to close with a licensed attorney firm and subject to their review and costs.

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## SECTION 4 – CREDIT

### 4.1 CREDIT REPORT REQUIREMENTS

Acra requires a three-bureau in-file report for each individual loan applicant obligated for repayment of the loan. Each report should comply with the following:

- The credit bureaus utilized in generating borrowers' credit reports comply with the Fair Credit Reporting Act.
- Appropriate authorization from the Borrower(s) is required prior to obtaining credit. (Refer to Credit Authorization on the following page.)
- Credit supplements must be included in and made a part of the report.
- Historical status for all account / ratings (i.e., R-1, I-2, etc., are acceptable if the meaning is clarified on the report; vague comment such as "satisfactory", "as agree," etcetera, are not acceptable. (0x30, 0x60, 0x90 is the preferred format).
- Reports should be numbered or have a beginning and ending statement.

### 4.2 CREDIT REPORTING BUREAUS

Each credit report must utilize three (3) credit reporting bureaus and credit scores provided by the following bureaus:

<u>Credit Reporting Bureau</u>	<u>Credit Score</u>
Equifax	Beacon 5.0
Experian	FICO (V2)
TransUnion	FICO RISK SCORE CLASSIC 04

### 4.3 CONSUMER DEBT NOT REPORTED

Consumer debt claimed by the applicant but not reported on the credit bureau are to be included in the debt-to-income ratio.

### 4.4 CREDIT HISTORY

Acra defines credit history as the record of the borrower's payment of credit and voluntary obligations. The credit history is measured on the credit depth, number of obligations, and the demonstrated intent to repay. A borrower with a past history of consistently meeting financial obligations provides reasonable justification that he / she is likely to continue to do so in the future.

### 4.5 MINIMUM CREDIT DEPTH

A minimum credit depth of three (3) acceptable tradelines aged individually for a minimum of two (2) years is required for LTVs greater than 65%. For LTVs less than or equal to 65%, three (3) tradelines are required but only one (1) of the tradelines needs to be seasoned greater than two (2) years.

Depth is considered to be the months reviewed as provided on an individual credit line item on the consumer's tri-merge credit report.

Acra does not consider supplemental tradelines (i.e.: utilities, cell phone, taxes, etcetera) toward depth under this subsection. However, depth can include a rental history when documented with either (i) a VOR from a Rental Management Company or (ii) cancelled checks.

Acra Senior Management has the discretion to determine the acceptability of a tradeline including use of a rental history.

### 4.6 CREDIT SCORE DETERMINATION

Acra's grading criteria combines the credit score for consumer credit, the mortgage / rental rating and income analysis to achieve a loan grade.

#### - Consumer Transactions -

The credit bureau score of the primary wage earner is the credit score assigned to the loan. The primary wage earner, for consumer transactions, is the applicant who is paid the highest salary based on the employment and occupation information documented in the file. Should multiple applicants make the same amount as the primary wage earner, the lower score between them will be utilized for qualification. Similarly, if two (2) applicants are 50 / 50 owners of a business, the lower score is again utilized between these primary wage earners.

The credit score assigned to the loan is determined as follows:

- If three (3) scores are supplied on the primary wage earner, use the middle of the three (3) scores.
- If two (2) credit scores are supplied on the primary wage earner, use the lower of the two (2) scores.
- Acra does not extend credit where the primary wage earner has one (1) or less credit scores.

Example: If three (3) scores are supplied for each borrower on a loan application:

Borrower 1	600, 630, 650 – middle score is 630
Borrower 2	590, 600, 580 – middle score is 590

Whereas if Borrower #2 were the primary qualifier (as described above), 590 would be used as it is the lowest of the selected (in this case, middle score) score for both borrowers.

A co-borrower without scores or depth can be on the loan application should they contribute zero qualifying income to the file – regardless, a credit pull of this individual is required.

#### - DSCR Business Purpose Transactions -

On Business Purpose transactions qualifying via DSCR, the cash flow of the property is used to determine the repayment ability. Therefore, the credit score assigned to the loan will be determined by using the highest middle score of all applicants. For loans that close in the name of an entity, the score will be determined by the highest middle score of the personal guarantors, presuming equal percentages of ownership. If ownership percentages differ, qualifying score will be off the individual with the highest concentration of ownership.

The primary applicant / guarantor must meet the tradeline qualifications and have a sufficient score for the program. Additional applicants / guarantors are not required to meet the tradeline qualifications or the minimum score for the program.

On refinance transactions, only the score of the applicant / guarantor on title will be used for determining the score (i.e.: an applicant that is newly introduced to title would not be the qualifying score, but instead the existing party(ies) score(s) would be considered).

Example: The loan will close in the name of an entity and there are three (3) personal guarantors – each with matching percentage of ownership – with the following scores:

Guarantor 1	670, 690 – lower of two (2) scores is 670
Guarantor 2	620, 640, 655 – middle score is 640
Guarantor 3	720, 760, 755 – middle score is 755

The score for this loan is 755 since it is the highest qualifying score of all guarantors.

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### I. CONSUMER CREDIT DELINQUENCY

#### 4.7 COLLECTIONS, CHARGE OFFS, AND REPOSSESSIONS

Collections and charge offs may remain unpaid subject to the following circumstances:

- Medical; or
- Two (2) years or more since the date of last activity; or
- When credit report references an original creditor that differs from the current collection agency, the date last active on that original account reflects a date greater than two (2) years ago.

The earliest reporting date last active for the collection debt, on either an Acra or broker's credit report, will be used to determine the age of the collection account in question, if Acra determines the broker's credit report to be acceptable.

If the applicant and creditor have worked out a payment plan, the account may be added to the DTI and will not be required to be paid off. Payment plan should have been seasoned for a minimum of three (3) months with timely payments confirmed to have been made by creditor / credit supplement / cancelled checks.

Student loans may go into collection, but they do not become uncollectable nor written off. Student debt may remain unpaid consistent with this section and §6.10.

#### 4.8 JUDGMENTS, TAX LIENS, LIENS, AND DELINQUENT CHILD SUPPORT

Purchase, Rate / Term Refinance, Debt Consolidation Refinance, and Cash Out Refinance Transactions:

- Pay all judgments / liens. On a case-by-case basis subject to Senior Management review, Judgements reported on credit may not have to be paid off if they do not appear on title.
- Pay any tax lien(s).
- Pay any delinquent child support.

NOTE: Purchase transactions: all items must be paid with borrower's own funds.

If the Applicant is on a payment plan to settle the tax lien(s), the payoff of the plan will be required unless the borrower does not have the funds. Subject to Acra Senior Management approval: If the Applicant does not have the funds to close, the entity who provided the payment plan (IRS, Franchise Tax Board, etcetera) must subordinate their lien(s) to Acra and the payment plan amount will be included in the DTI. Payment plan should have been seasoned for a minimum of three (3) months with timely payments confirmed to have been made by creditor / credit supplement / cancelled checks. Subordinating an IRS lien may be allowable with Acra Senior Management approval on a case-by-case basis.

#### 4.9 CONSUMER CREDIT COUNSELING

Consumer Credit Counseling assists individuals with financial management of debts in an attempt to avoid further delinquencies or possible bankruptcy. Generally, creditors agree to a lesser repayment under a Credit Counseling plan. A copy of the CCC record of monthly payments covering the look back period is required. The consumer credit grade determination is based on the grade criteria of a Chapter 13 bankruptcy. The CCC must be complete and / or paid in full prior to or through closing.

#### 4.10 TIME SHARE ACCOUNTS

The payment history of a time-share account is treated the same as consumer credit. Time Share accounts are not treated as mortgages for the sake of a mortgage rating.

**4.11**  
**CREDIT**  
**EXPLANATIONS**

The borrower is required to provide a written explanation for loans in which the mortgage payment history reflects a 90+ days delinquent status within the prior 12 months. The letter must explain in detail why the delinquency occurred and a reasonable expectation must be established that the problem has been resolved and not likely to recur.

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## II. BANKRUPTCY

### 4.12 CHAPTER 7 BANKRUPTCY

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A Chapter 7 Bankruptcy filing allows individuals to liquidate estate assets and distribute funds received through liquidation to creditors.

The aging for Chapter 7 Bankruptcies is calculated using the discharge date. Chapter 7 Bankruptcies must be discharged prior to the loan application.

### 4.13 CHAPTER 11 BANKRUPTCY

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A Chapter 11 Bankruptcy allows businesses the opportunity to “reorganize” business debt obligations without having to liquidate all assets. The debtor introduces a plan to creditors, which will allow the debtor to reorganize financial obligations to improve the financial stability of the business.

The aging for Chapter 11 Bankruptcies is calculated using the filing date. Chapter 11 Bankruptcies must be discharged prior to the loan application.

### 4.14 CHAPTER 13 BANKRUPTCY

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A Chapter 13 Bankruptcy allows an individual with regular income, who is overcome by debts but believes they can be repaid within a reasonable period of time. Chapter 13 permits the debtor to file a plan to pay a certain percentage of future income to the Bankruptcy court for payment to creditors. If the court approves the plan, the debtor will be under the court's protection while repaying stated debts. The Chapter 13 filing date is used for aging if the applicant satisfactorily completed their bankruptcy plan and (a) obtained a discharge or (b) is currently performing under the plan. Alternately, the Chapter 13's exit date or current date will be utilized for aging if an applicant (x) did not satisfactorily complete their plan and obtained a dismissal, (y) obtained a Hardship Discharge, or (z) is not currently performing under the plan.

The payment plan history should verify that all payments under the plan have been completed. Any open Chapter 13 Bankruptcy must be paid in full prior to or through closing.

Approval to pay off the bankruptcy is required from the trustee and bankruptcy court. A list of all outstanding debts reflecting the unpaid balances must be obtained from the trustee. If the bankruptcy is paid through closing, the final closing statement (CD or HUD-1) must reflect the bankruptcy pay off. Regardless of the loan grade, proof of the bankruptcy discharge must be obtained and included in the loan file.

#### **A. Garnished Wages**

If wages are garnished to make a plan payment or if the plan payment is delinquent in the last twelve (12) months additional pricing or an increased rate may be required.

#### **B. Mortgage Payments Included in Bankruptcy Chapter 13 Plan**

If the mortgage payments are included in the bankruptcy payment plan, (Senior and Junior liens), the full PITI must be paid as agreed and current. If the payments made were less than the full payment and interest, the loan will require additional pricing or an increased rate if the loan is to be eligible at all.

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### III. MORTGAGE / RENTAL RATING

#### 4.15 DETERMINING MORTGAGE / RENTAL RATING

The mortgage / rental rating for determining the mortgage pricing is determined by evaluating the ratings for properties that the borrower owns and / or rents over the last twelve (12) months.

All reported mortgages on credit should be considered. In the event the Applicant has mortgages that are not reported, file should otherwise contain documentation to evaluate history on:

- The Applicant's / Applicants' primary residence(s);
- Any and all of Applicant's / Applicants' secondary residence(s); and
- The Subject property.

File should also document the above property(ies) plus all other property(ies) owned by the Applicant(s) with a public record search (i.e.: SiteX or similar product) to establish there is not foreclosure action.

#### 4.16 ABSENCE OF MORTGAGE / RENTAL HISTORY

In the absence of a mortgage / rental rating covering the last twelve (12) months, the loan will be considered on a case-by-case basis.

#### 4.17 PROPERTIES OWNED FREE & CLEAR

In the absence of a mortgage / rental rating on subject properties owned free and clear, a chain of title covering the last twelve (12) months must be obtained and reviewed by the underwriter for property flipping and / or suspicious or conflicting property transfers.

#### 4.18 PRIVATE PARTY / NON- INSTITUTIONAL LENDER

Unless serviced by an identifiable third party (determined in Acra's sole discretion), a mortgage rating for a lien owned by private party or non-institutional lender will require a mortgage history to be documented with twelve (12) months cancelled checks (front and back) or, if paid by cashiers or postal checks copies of the past twelve (12) months. A VOM from a Private Party may be accepted for non-subject property(ies).

#### 4.19 VERIFICATION OF RENT PAYMENTS

A rental payment history covering the last twelve (12) months requires verification by ONE of the following:

1. Legible copy of twelve (12) months canceled checks (front and back) or money orders – amount of checks / money orders must be consistent and match the amount of monthly rent reflected on the 1003.
2. Verification of Rent (VOR) or a rating from credit reporting agency if from rental agency. A VOR can be accepted from a private party at LTVs of 75% or less.
3. Bank statements for the last twelve (12) months which consistently show payment made for rent amount.

NOTE: IF BORROWER RENTS FROM RELATIVE OR SELLER A VOR WILL NOT BE ACCEPTABLE, CANCELLED CHECKS OR BANK STATEMENTS WILL BE REQUIRED ALONG WITH THE LEASE AGREEMENT.



### **4.20 DEPARTURE PROPERTY**

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A departure property is defined as the owner-occupied residence the borrower resided in prior to the purchase of the current owner-occupied residence.

Eighty percent (80%) of the market rents may be used to offset the PITIA payment of this property and is determined by one of the following:

1. Appraiser;
2. Internet Rental Companies (Rent Range, Zillow, realtor.com, etcetera); or
3. Market Survey

One hundred percent (100%) of the rents may be used to offset the PITIA payment of the property if documented by both of the following:

1. Copy of executed rental agreement; and
  2. Proof of receipt of security deposit.
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### IV. MORTGAGE / RENT DELINQUENCY

#### **4.21 ROLLING DELINQUENCY**

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Rolling delinquencies are considered for 30 days late up to six (6) lates are one (1) event. Above thirty (30) days late, each late is an event.

#### **4.22 FORBEARANCE / MODIFICATION AGREEMENT**

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Signed into law on March 27, 2020, the Federal Coronavirus Aid, Relief, and Economic Security Act (CARES Act) allowed borrowers with federally owned or backed loans who experienced a COVID-19 related financial hardship the right to request a 180-day forbearance, which may be extended for an additional 180-days.

GSE Servicers were addressing the repayment of forbearances in a variety of ways. One manner includes requiring deferred payments to be repaid over a short window (such as a one-year period) upon restarting scheduled payments. Some windows were even shorter, requiring repayment of all deferred payments to be repaid at once upon resuming payments (i.e.: up to 13 payments being due at once). Other forbearance plans may even add payments to the back end of the loan, extending the maturity date.

Recognizing that many Mortgagors took an offered deferral, whether via letter agreement, forbearance, or modification, as abundance of caution or a free "put", Underwriters should take care to identify if and when the Mortgagor accepted one of these manners of COVID related assistance. Acra imposes a lookback period with a six (6) month seasoning threshold, measured off the date of acceptance to the subject loan's application date, where additional limitation in the form of LTV and rate adjustment are applicable.

Acra Senior Management will review unique forbearance circumstance for case-by-case consideration for appropriate qualification, LTV limitation, and special pricing.

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### **4.23 FORECLOSURES**

A foreclosure is a proceeding by which the creditor, pursuant to the terms of the trust deed or mortgage, may cause the sale of the collateral property in full or partial satisfaction of the debt. Such action typically extinguishes all rights, title, and interest of the owner of the property.

Any real estate loan more than 120-days delinquent will be considered "in foreclosure" unless performing under a written forbearance or modification agreement.

Foreclosures on investment properties, other than the subject property will be considered the only mortgage if there is no mortgage on the borrower's principal residence. In such cases, the mortgage rating on the investment property is considered the mortgage rating and used for determining the borrower's pricing grade.

The look back period for foreclosure is based on the following:

- The date a foreclosure action or forbearance is cured, or
- The applicant is no longer reported 120 days delinquent, or
- The property was sold at a foreclosure sale.

A borrower with two (2) or more unrelated foreclosures within the last 36 months will be eligible for any Acra loan on a case-by-case basis but in no event exceed a 65% maximum LTV.

Two (2) or more foreclosures resulting from separate circumstances or occurring several months apart will be considered unrelated foreclosures. The underwriter must prudently analyze related foreclosures, to ensure the reason for defaulting on the mortgages were due to extenuating circumstances beyond the borrower's control and such circumstances are resolved and not likely to recur. If the underwriter determines that foreclosures were related, support documentation must be obtained and included in the loan file.

In some events, an existing second trust deed may stop collection efforts or was previously included in a bankruptcy; however, the lien may still exist on title. Acra senior management may review for case-by-case consideration for appropriate income qualification type, LTV limitation, and / or special pricing.

### **4.24 SHORT SALES**

A short sale is a proceeding whereby a lender allows the current owner of a property to sell that property with that lender accepting a payoff for less than the current unpaid mortgage balance.

### **4.25 DEED-IN-LIEU ("DIL")**

A Deed-in-Lieu ("DIL") of Foreclosure is a proceeding whereby a lender accepts a forfeited title from the current owner in lieu of foreclosure. The unpaid principal balance is typically forgiven once the lender takes title.

### **4.26 DELINQUENT PROPERTY TAXES**

Delinquent property taxes are not considered in the mortgage rating. All tax and insurance payments will be impounded for future payments unless waived by Senior Management on a case-by-case basis.

### **4.27 SHORT PAYOFF**

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A refinance transaction wherein a Borrower is paying off an existing lien for less than the amount to pay the account in full, but will allow a homeowner to keep their home, will be treated in the same manner as a short sale for credit grading and documentation. The maximum LTV is the lower of 65% or a minus five percent (-5%) LTV reduction from the top LTV allowed based on the credit grade. Cash-out refinances can pay off debts with only incidental cash in hand allowed.

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## SECTION 5 – INCOME / EMPLOYMENT

### I. GENERAL REQUIREMENTS

#### 5.1 CONTINUANCE OF INCOME AND EMPLOYMENT HISTORY

All borrowers should have a two-year (2-year) history of receiving stable income from employment or from other sources such as alimony, child support, retirement, and pension. Any source of income that is not verifiable is not an acceptable source of income. There must be a reasonable expectation that the income will continue in the foreseeable future, and such income is sufficient for repaying the proposed monthly debts.

Borrowers with employment histories that do not meet the length of employment required must provide a Letter of Explanation as to their individual situation. The underwriter must then determine the probable stability and continuance of employment. The potential for future income can have a positive influence for borrowers who have recently entered or been absent from the job market for a period of time.

#### 5.2 ASSET DEPLETION

Borrowers with verifiable cash (held in appropriate banking institution) or other liquid assets may use those assets to qualify with a Letter of Explanation defining the source and contemplated depletion of these assets over the course of the loan term to pay obligations. In the event that the borrower has sufficient liquid assets to pay off the loan in full (branded: Acra's "ATR-in-Full" or "AiF" program), Acra would consider this asset source as fulfilling the DTI / Residual income prong of the ATR test. In that event, Sections for Maximum DTI and Residual Income will not apply. Borrower will need to provide most recent two (2) months assets statements for qualification. Underwriting should take care to consider the minimum amount of funds in the account versus the amount needed for qualification and if the account is being otherwise depleted.

Generally, the Assets referenced in this subsection must be sourced as liquid assets and personally held (versus held in a business account). However, in the event that the Applicant transaction is "delayed financing", the funds being recouped via the transaction may also be utilized for qualification under this subsection when the funds were sourced and seasoned for not less than 90 days prior to the initial purchase of the subject and those assets otherwise qualify as liquid assets under this subsection.

Acra defines "delayed financing" as the purchase of a property for 100% cash and apply, within 120 days following the purchase, to retrieve a portion of that cash used in the purchase.

#### 5.3 EMPLOYMENT STABILITY

Employment across different jobs in the same or related line of work is acceptable. Borrowers who change jobs frequently to advance within the same line of work and are successful in that work will receive favorable consideration. Such borrowers should not be penalized for frequent changes in jobs if they have maintained income continuity despite the changes.

#### 5.4 EMPLOYMENT GAPS

The borrower must explain any employment gaps that extend beyond sixty (60) days.

**5.5  
VERIFICATION OF  
PREVIOUS  
EMPLOYMENT**

If the borrower(s) present employment does not cover the length of employment required for the documentation program, verification of their previous employment may be required.

**5.6  
MAXIMUM DEBT-  
TO-INCOME RATIO  
(DTI)**

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The Maximum Debt-to-Income ("DTI") ratio for any loan is 50% of total income including any asset depletion component rounded down (i.e.: 50.49% rounds to 50%).

**5.7  
RESIDUAL INCOME**

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The borrower(s) income is subject to a test for gross residual income based on the following table for dependent family members:

Family Members	Minimum Residual Income
1	\$ 500
2	\$1,000
3	\$1,250
4+	+\$250/per

**5.8  
VERIFICATION OF  
EMPLOYMENT  
(VOE))**

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An employer may be required to complete a written Verification of Employment ("VOE") with certain information regarding the borrower's employment and income if required by an Acra underwriter. A Fannie Mae Form 1005 or similar form may be utilized, but a written VOE should include at a minimum the following information:

- Date of employment;
- Present position;
- Current base pay and frequency paid;
- Overtime, commission or bonus income, if applicable;
- Probability of continued employment, if available; and
- Date verified, name, title, and signature of the person verifying the information.

**5.9  
PAY STUBS**

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Pay stubs should reflect year-to-date earnings. There must be a sufficient number of pay stubs to cover a one-month period. Handwritten pay stubs are acceptable, if supported by bank statements for the last two (2) months.

**5.10  
STRIKEOUTS OR  
ALTERATIONS ON  
ORIGINAL  
DOCUMENTS**

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A new verification may be required on any document with strikeouts or alterations.

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## II. INCOME SOURCES

### SOURCES

A borrower may receive income from the following four (4) sources:

1. Salary / Wage Earner – A wage earner derives income in the form of salary or an hourly rate through employment of a business in which he or she has little or no ownership interest. Acceptable sources of documentation for the wage earner may include:
  - IRS W-2 Form
  - IRS Tax Form 1040
  - Pay stub
  - Written Verification of Employment
2. Fixed Income – Acceptable sources of Fixed income may include:
  - Alimony, Child Support and Separate Maintenance
  - Permanent Disability
  - Guaranteed Income (Inheritance, Lottery, Trust)
  - Retirement / Pension, Social Security, Supplemental (Dependent's) Social Security
3. Other Sources of Income – Other sources of income may include:
  - Capital Gain Income
  - Dividend / Interest Income
  - Foster Care Income
  - Housing Allowance, Mortgage Differential Payments
  - Note Income
  - Rental Income
  - Room Rents
  - Tips and Gratuities
  - Trust Income
  - Unemployment Income (seasonally employed and reasonably predicted)
  - VA Benefits
  - Pension
  - Asset Depletion
4. Self-Employment
  - A borrower who owns twenty-five percent (25%) or more of a business entity is considered self-employed.

### 5.11 UNACCEPTABLE INCOME

The following sources of income are not acceptable:

- Contributions or Support from Family Members
- Educational Benefits
- Illegal Income\*
- One-time Capital Gains (continuing capital gains may be considered as acceptable source of income)
- Refund of Federal, State or Local Income Tax

\* While Acra recognizes several States have legalized the use of marijuana to some degree, whether for medical or recreational use, there exists a conflict to Federal Law regulating cannabis and / or cannabidiol (aka CBD). As a result, Acra will not fund any loan where the income or assets are / were derived from the growing, distribution, transfer, development, or other vendor / supplier relation to marijuana. Acra will also not lend against a property that is being utilized to grow, store, process, etcetera in connection to marijuana. In addition to growers and retailers, there are vendors and suppliers, landlords and employees that are

indirectly tied to the cannabis industry that pose a similar risk and are therefore ineligible.

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### III. INCOME CALCULATIONS

Income documentation should be reviewed for upward or downward trends by comparing the current income and the income from the most recent year. Refer to “*Declining Income*” on the following page.

Income is analyzed on a monthly basis. If the borrower is paid other than monthly, you need to convert the income to a monthly figure. Typically, the income is multiplied by a factor to achieve an annual amount, and then divided by twelve to reach the monthly figure.

#### HOURLY

Multiply (x) the wage by 40 (or consistent number of hours worked in a week).  
Multiply (x) that amount by 52 (weeks in the year).  
Divide (÷) that amount by 12 (months).

Example:        \$14.80 an hour  
 $\$14.80 \times 40 = \$592.00 \times 52 = \$30,784.00 \div 12 = \$2,565.33$  (monthly salary)

NOTE: If number of hours is not consistent income must be averaged, add (+) year-to-date amount with previous year W-2 earnings, divide that amount by the total number of months.

Example:        \$2,000 income 6 months year-to-date: \$12,000.00  
                      \$1,999 income 12 months W-2: \$23,988.00  
 $\$12,000.00 + \$23,988.00 = \$35,988.00 \div 18 \text{ months} = \$1,999.33$   
                      (monthly average)

#### WEEKLY

Multiply (x) the weekly salary by 52.  
Divide (÷) that amount by 12.

Example:        \$570.00 a week  
 $\$570.00 \times 52 = \$29,640.00 \div 12 = \$2,470.00$  (monthly salary)

#### BI-WEEKLY

Multiply (x) the bi-weekly salary by 26.  
Divide (÷) that amount by 12.

Example:        \$1,500.00 bi-weekly  
 $\$1,500.00 \times 26 = \$39,000.00 \div 12 = \$3,250.00$  (monthly salary)

#### SEMI-MONTHLY

Multiply (x) the semi-monthly salary by 24.  
Divide (÷) that amount by 12.

Example:        \$1,280.00 semi-monthly  
 $\$1,280.00 \times 24 = \$30,720.00 \div 12 = \$2,560.00$  (monthly salary)

#### ANNUAL

Annual salary divided by 12 months.

Example:        \$55,000.00 annually (÷) 12 = \$4,583.33 (monthly salary)

### 5.12 TEACHERS / EDUCATION PROFESSIONALS

If annual salary is determined, divide amount by twelve (12) months. If paid ten (10) months of the year, multiply monthly amount by 10 then divide by 12. A copy of the applicant's contract and W-2 or WVOE may be required.

Example: \$4,200.00 a month for 10 months.  
 $\$4,200 \times 10 = \$42,000 \div 12 = \$3,500.00$  (monthly income)

### 5.13 PART-TIME, SECOND JOB, SEASONAL, CONTRACT, TEMPORARY, OR UNEMPLOYMENT INCOME

Use either W-2's or Tax Returns for the two (2) most recent years. Average the income.

Example: 2018 income: \$73,840.00  
 2019 income: \$68,350.00  
 $\$73,840.00 + \$68,350.00 = \$142,190.00$   
 $\$142,190.00 \div 24 \text{ (months)} = \$5,924.58$  (monthly income)

### 5.14 INCOME CALCULATION FOR BONUS, OVERTIME, OR SHIFT DIFFERENTIAL

Bonus, overtime, or shift differential income is acceptable when the employer verifies that the borrower has received the income for the last twelve (12) months and such income is likely to continue.

1. If the employer specifies the overtime or bonus income is received separately from the borrower's monthly salary, determine the monthly average as follows:
  - Add the overtime or bonus income received year-to-date to the overtime or bonus income for the most recent year, and then divide by the total number of months (number of months for year-to-date and twelve (12) months for most recent year).
2. If overtime or bonus income is not verified separately from the borrower(s) monthly salary, determine the monthly average as follows:
  - Add the Borrower's current year-to-date earnings including overtime to the income for the most recent year, then divide by the total number of months (number of months for year-to-date and twelve (12) months for most recent year).

### 5.15 DECLINING INCOME OR UNUSUAL FLUCTUATIONS

A review of all income documentation is necessary to identify any upward or downward trends by comparing the current income and the income from the most recent year. If declining income trends or unusual fluctuations exist, sufficient discretion must be exercised to determine the extent or probability of impairment.

The 2020 COVID-19 pandemic may have resulted in a period where the applicant has lost income, been temporarily furloughed, or laid off. Underwriter should seek to establish a consistent work schedule has resumed and income utilized to qualify has been reestablished (i.e.: comparing most recent individual month's documented income to the qualifying average).

### IV. INCOME DOCUMENTATION PROGRAMS

Acra offers three Documentation Programs: Full Documentation ("Full Doc") for primary or secondary residences; Alternative Income ("Alt Doc Bank Statements") for primary or secondary residences, and Alternative Documentation ("Alt-Doc Cash Flow" or "DSCR") for Non-Owner Occupied properties.

The below information is a summary of the minimum documentation requirements for each Income Documentation Program. For additional documentation requirements, refer to the Income Doc Chart in this section of the Guide.

#### FULL DOCUMENTATION

<b>WAGE EARNER</b>	<ul style="list-style-type: none"> <li>Written VOE completed in full by employer (Verbal verification of VOE also required under §3. I. Expiration of Credit Collateral Documents) verifying most recent two (2) years and current year-to-date earnings on a current pay stub OR</li> <li>W-2 for most recent two (2) years &amp; current pay stub reflecting year-to-date earnings OR</li> <li>Signed 1040's for most recent two (2) &amp; current pay stub reflecting year-to-date earnings</li> </ul>
<b>FIXED &amp; OTHER SOURCES</b>	<ul style="list-style-type: none"> <li>Current award / retirement letter; AND</li> <li>Copy of the most recent bank statement showing automatic deposit (deposit must specifically reference the source of the deposit); OR</li> <li>1099 for most recent year</li> </ul>
<b>SELF-EMPLOYED</b>	<ul style="list-style-type: none"> <li>Acceptable documentation supporting existence of the business ("Refer to the <i>Acceptable Evidence of Self-employed Business</i>") AND</li> <li>Verification of income covering the most recent two (2) and year-to-date earnings with signed 1040's as well as other applicable supporting documentation (i.e.: 1120's, K-1s, etcetera)</li> </ul>
<b>100% COMMISSION / BONUS</b>	<ul style="list-style-type: none"> <li>Verbal VOE, to confirm borrower's employment and commission / bonus AND</li> <li>Signed 1040's for most recent two (2) years with current pay stub reflecting year-to-date earnings (if not pay stub no applicable, obtain bank statements covering year-to-date)</li> </ul>
<b>SALARIED PLUS ≥ 25% COMMISSION / BONUS</b>	<ul style="list-style-type: none"> <li>Signed 1040's for most recent two (2) AND current pay stub reflecting year-to-date earnings (pay stub must reflect salaried wage + commission / bonus). If borrower can qualify on base salary alone, no 1040 tax returns will be required.</li> </ul>

### WRITTEN VERIFICATION OF EMPLOYMENT ("WVOE") PROGRAM

#### WRITTEN VOE PROGRAM

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As otherwise consistent with §5.8, the WVOE Program will be documented and limited to:

- Two-year history required at the employer submitting the WVOE;
- Customary VVOE within 72-hours of funding;
- No 4506-T requirement;
- Owner Occupied transactions;
- 600 Minimum Qualifying FICO / "B" Tier;
- 80% LTV / CLTV;
- Minimum twenty-four (24) month recent housing history required;  
    Note: An acceptable housing history may span across more than one individual creditor / landlord covering the requisite timeframe;
- Borrowers without a recent mortgage may be considered at reduced LTV;
- No First Time Home Buyers;
- Minimum to maximum loan amount of \$150,000 to \$1,000,000;
- Cash out is unlimited, unless otherwise limited specific within CSC's programs generally;
- Secondary financing is not allowed;
- SFR / Condo / Townhouse Property Types;
- Property must be in good condition and conform to the area;
- No rural properties; and
- Such other factors as provided on the Program specific Rate Matrix.

Note: This program is not available to an Applicant who is employed by a family member or related party.

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**ALTERNATIVE DOCUMENTATION / BANK STATEMENTS**

**TWELVE OR  
TWENTY-FOUR (12  
OR 24) MONTH  
BANK STATEMENT  
PROGRAM**

**SELF-EMPLOYED  
ONLY  
(MUST BE ABLE TO  
VERIFY SELF-  
EMPLOYMENT)**

1. As prescribed by the program, the latest month's personal or business bank statements with all pages is required for all months. Use of up to three (3) accounts' statements is acceptable on a consecutive and sequential basis. A borrower may not transition from one account to another and then revert back to the original or previous account statement(s).
2. Income is determined by using the gross monthly amount of deposits. Where appropriate for the manner of business, transfers into the account are also acceptable for qualification where not circular in nature.
3. Max six (6) NSF checks in the last twelve (12) months. Loans are not subject to the max number of NSF checks requirement when they are (a) (i) 80% or below LTV and (ii) have a loan amount of \$1,500,000 and below or (b) are approved on a case-by-case by Senior Management.
4. Acceptable documentation supporting the existence of the business for the most recent two (2) years must be obtained. (Refer to the *Acceptable Evidence of Self-Employed Business*).
5. If business bank statements are provided, (including personal bank statements used as a business account), use a maximum of 50%\* of the deposits as qualifying income. On a case-by-case basis, Acra will consider accounts from multiple autonomous businesses owned by Borrower(s). Acra will review the business bank statements and may reduce the income if they feel necessary due to expenses of the company.  
The qualifying income will be further reduced by multiplying the deposits by the percentage of ownership by the applicant(s). The minimum allowable percentage of ownership is 25% per applicant utilizing the account.
6. If personal statements are provided, Acra will use 100% of the deposits as qualifying income.  
If it is determined that the personal bank statements are being used as a business account for a sole proprietor business type, then we will treat as a business account and a maximum of 50%\* of the deposits will be used as qualifying income. Acra underwriters should take care to consider the type of business and appropriate haircut to deposits when in their discretion the business has a limited overhead (i.e.: a 1099 employee).
7. An LOE from the borrower is required explaining their business name, what their business does, the number of employees, how it is set up (Incorporated, LLC, Sole Proprietor, etcetera), and what they consider their income to be on a monthly basis. If the information for the above items is already located in another part of the file, the LOE does not need to explicitly confirm it.
8. A personal account with multiple owners listed at any point in the qualifying timeline of utilized statements must all be on the loan application regardless of individual contributions to the deposits / qualifying income. Limited case-by-case exceptions for account holders to not be on the loan are account holders listed as "Payable On Death" or similar "in trust" (not to be confused with a Trust Account) designations for successor ownership.  
A business account with multiple owners on the statement does not require all owners to be applicants for the loan.
9. When utilizing the 24-month variant of this program, Acra will consider declining income by qualifying at the lessor of the last 24-months or 12-month documented period.

\* A business expense haircut under 50% may be considered by Underwriter when validated by (i) a CPA Letter that directly states the experienced overhead for Applicant's business AND (ii) Underwriter, in their sole discretion, finds that ratio to be consistent with the Applicant's industry. However, in no instance would Acra consider a ratio of less than a 25% overhead factor to business statements.

### **1099 ONLY AND PROFIT & LOSS (P&L) PROGRAMS**

The 1099 Only and P&L Programs will be documented by and limited to:

- Self Employed Borrowers (two-year (2-year) history required by (i) CPA Letter or (ii) Business License);
- Owner Occupied transactions;
- 600 Minimum Qualifying FICO / "B" Tier;
- 80% LTV / CLTV;
- No First Time Home Buyers;
- Borrowers without a recent mortgage may be considered at reduced LTV;
- SFR / Condo / Townhouse Property Types;
- No rural properties; and
- Such other factors as provided on the Program specific Rate Matrix.

Specific to the 1099 Only Program:

- Applicant to provide:
  - IRS Form(s) 1099 to document prior two (2) year(s) income; and
  - Bank Statements for the most recent 60 days to document current year to date, which should show gross deposits consistent with the 1099s; and
- Underwriter will calculate income by determining if there is an overhead to the business in a manner consistent with reviewing personal versus business bank statements. If the Applicant's business revenue reflected on the 1099 would have measurable expenses to generate a net income, a 50% haircut would apply. A business expense haircut under 50% may be considered by Underwriter when validated by (i) a CPA Letter that directly states the experienced overhead for Applicant's business AND (ii) Underwriter, in their sole discretion, finds that ratio to be consistent with the Applicant's industry.

Specific to the P&L Program:

- Applicant will provide:
    - A "third-party" prepared profit and loss statement for their self-employed business(es) on the preparer's letterhead;
      - Statement from preparer that they have prepared or reviewed the corresponding tax returns for the covered period;
      - "Third Party" to be an appropriately licensed CPA or Tax Preparer; and
      - In no event can the preparer be an employee of the Applicant or their business; and
    - Bank Statements for the most recent 60 days to track current year to date, which should show gross deposits consistent (within 90%) to the revenue of the P&L;
  - P&L Statement should cover the past two (2) fiscal years and YTD for the business and in no event less than 24 months;
  - P&L Statement to be signed by "third-party" preparer;
  - Underwriter will calculate qualifying income by dividing net profit by the number of months in the covered period (subject to ownership percentage).
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**SELF-EMPLOYED  
HYBRID  
APPLICATIONS  
AND / OR  
BORROWER(S)**

In the event an application has income as both a Wage Earner and via Self-Employment – whether from two co-applicants or even as a single applicant with two concurrent income sources, Acra may qualify by calculating the income with 12-months bank statements. Where dual sources for a single Applicant, said Applicant will have to show a history of maintaining the two (2) income sources for a minimum of two (2) years.

Customarily, an applicant may qualify going (a) Full Doc as elsewhere described in this Guide or (b) by utilizing Full Documentation for the Wage Position and Business Statements for the Self-Employment position. However, where the Applicant(s) desire(s) to utilize Personal Statements, this section will prevail.

An applications wage-earner income is considered to be included into the personal statements and may even be visible as direct deposits. In lieu of attempting to back out and “wash” the wage income, Underwriter is to consider the gross deposits to the account as cumulative for both sources. Underwriter is still required to obtain customary Full Documentation and VVOE for the wage position.

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### V. INCOME DOCUMENTATION CHART – WAGE EARNER, FIXED INCOME, & OTHER SOURCES

SOURCE OF INCOME	RECEIPT HISTORY	CONTINUATION PERIOD	REQUIRED VERIFICATION	CALCULATION METHOD
<b>ALIMONY / CHILD SUPPORT</b>	Last Three (3) Months	Three (3) Years	<ul style="list-style-type: none"> <li>Divorce decree or legally binding separation agreement (signed by the courts) specifying the duration of payments no less than three (3) years remaining and amount of the monthly payments; <u>AND</u></li> <li>Three (3) months canceled checks; <u>OR</u></li> <li>Three (3) months personal bank statements; <u>OR</u></li> <li>Three (3) months court payment records.</li> </ul>	Use verified monthly income for qualifying.
<b>ASSET DEPLETION</b>	Not Applicable	Not Applicable	<ul style="list-style-type: none"> <li>Copy of most recent statements with amount available and Current Yield or HUD-1 if Loan Proceeds are to be used.</li> </ul>	Divide asset amount by 60 and add the result to qualifying income. Note: Funds used for asset depletion may not be used as reserves.
<b>AUTO ALLOWANCE</b>	Two (2) Years	Likely to Continue	<ul style="list-style-type: none"> <li>Letter from employer describing amount and frequency of distribution, and a current pay stub reflecting receipt of monthly allowance for auto loan payments.</li> </ul>	After excluding the Applicant's auto payment(s) as a liability within the DTI, only the portion of the auto allowance that exceeds the monthly auto loan payment can be included as income.

SOURCE OF INCOME	RECEIPT HISTORY	CONTINUATION PERIOD	REQUIRED VERIFICATION	CALCULATION METHOD
<b>BONUS, OVERTIME, SHIFT DIFFERENTIAL</b>	Two (2) Years	Likely to Continue	<ul style="list-style-type: none"> <li>• VOE verifying earnings for most recent two (2) years &amp; current year-to-date earnings &amp; statement that income source is likely to continue &amp; current pay stub; <u>OR</u></li> <li>• Statement from employer indicating the income source is likely to continue &amp; W-2 for most recent two (2) years &amp; current pay stub reflecting year-to-date earnings.</li> </ul>	Applicant must have history of receiving income for the last year and the trend must be stable or increasing. Income calculation: Average of earnings from most recent year and year-to-date.
<b>CAPITAL GAIN INCOME</b>	Two (2) Years	Likely to Continue	<ul style="list-style-type: none"> <li>• Signed 1040's for most recent two (2) years, including all schedules; <u>AND</u></li> <li>• Documentation borrower owns sufficient assets to support continuance of capital gain income.</li> </ul>	Two (2) year average of capital gain income from 1040's, Schedule "D".
<b>DISABILITY (PERMANENT)</b>	Evidence of Receipt	Three (3) Years	<ul style="list-style-type: none"> <li>• Copy of Insurance Award Letter reflecting amount of monthly payment; <u>AND</u></li> <li>• Most recent bank statements showing automatic deposits matching award letter; <u>OR</u></li> <li>• Two (2) most recent disability check.</li> </ul>	Use verified current monthly disability payment.
<b>DISABILITY (TEMPORARY)</b>	Evidence of Receipt		<ul style="list-style-type: none"> <li>• Original signed letter from borrower's employer stating continuance of employment is guaranteed and disclose date borrower is expected to return to work; <u>AND</u></li> <li>• Borrower must have returned to work evidenced by a copy of most recent paycheck stub.</li> </ul>	Must use borrower's base income after return to work.

SOURCE OF INCOME	RECEIPT HISTORY	CONTINUATION PERIOD	REQUIRED VERIFICATION	CALCULATION METHOD
<b>EMPLOYMENT BY RELATIVE OR INTERESTED PARTY</b>	Two (2) Years	Likely to Continue	<ul style="list-style-type: none"> <li>Six (6) months bank statements verifying monthly deposits equal to the amount of the borrower's net income; <u>AND</u></li> <li>VOE verifying most recent two (2) year and current year-to-date earnings; <u>OR</u></li> <li>W-2 for most recent two (2) years &amp; current pay stub reflecting year-to-date earnings.</li> </ul>	Use verified monthly income.
<b>FOSTER CARE INCOME</b>	Two (2) Years	Likely to Continue	<ul style="list-style-type: none"> <li>Letter(s) from agency showing the amount received for each child &amp; Copy of bank statements covering last 24 months reflecting direct deposit (deposit must specifically reference the source of the deposit).</li> </ul>	Average of foster care income received the last twelve (12) months.
<b>GUARANTEED INCOME (ANNUITY, LOTTERY)</b>	Two (2) Years	Three (3) Years	<ul style="list-style-type: none"> <li>Copy off original agreement showing length of time borrower is eligible to receive payments, &amp; personal bank statement verifying receipt of payment; <u>AND</u></li> <li>Signed 1040's for most recent two (2) years; <u>OR</u></li> <li>1099 for most recent two (2) years.</li> </ul>	Use the verified current monthly payment.
<b>HOUSING ALLOWANCE</b>	Two (2) Years	Two (2) Years	<ol style="list-style-type: none"> <li>Housing allowances are allowed as additional sources of income only for members of the military or clergy.</li> <li>The amount must be considered reasonable and normal.</li> <li>The borrower must submit proof of historical payments and certification of continuation from the employer. Not applicable for military.</li> <li>In addition, the monthly allotment statement is required for the military and a copy of the employment contract is required for the clergy.</li> </ol>	Verified amount of the monthly housing allowance added to the monthly income.

SOURCE OF INCOME	RECEIPT HISTORY	CONTINUATION PERIOD	REQUIRED VERIFICATION	CALCULATION METHOD
<b>INTEREST AND DIVIDENDS</b>	Two (2) Years	Likely to Continue	<ul style="list-style-type: none"> <li>Most recent account statements for all accounts to verify borrower has sufficient funds to support the continuance of interest / dividend income; <u>AND</u></li> <li>Signed 1040's for most recent two (2) years, including all schedules.</li> </ul>	Average of interest/dividend income received for the most recent two (2) years.
<b>MILITARY INCOME</b>	Evidence of Receipt	Likely to Continue	<ul style="list-style-type: none"> <li>Military personnel may be entitled to different types of pay in addition to their base pay. Flight or hazard-pay, rations, clothing allowance, quarters allowance, and proficiency pay may be considered as part of the borrower's stable income.</li> </ul>	Use verified monthly amount.
<b>MORTGAGE DIFFERENTIAL PAYMENTS</b>	Evidence of Receipt	Two (2) Years	<ul style="list-style-type: none"> <li>An employer may subsidize an employee's mortgage payments by paying all or part of the interest differential between the employee's present and proposed mortgage payments. These payments can be considered as acceptable income if verified in writing by the borrower's employer. The employer must state the amount and duration of the payments.</li> </ul>	Add differential payments to gross income. Mortgage differential payments cannot be used to directly offset the mortgage payment, even if the employer pays them directly to the mortgage lender.
<b>NOTE INCOME</b>	Twelve (12) Months	Three (3) Years	<ul style="list-style-type: none"> <li>Copy of executed Note; <u>AND</u></li> <li>Most recent six (6) months bank statements showing deposits equal to the amount of the monthly Note payments.</li> </ul>	Use verified amount of monthly Note payments received by borrower.
<b>PART TIME EMPLOYMENT</b>	Two (2) Years	Likely to Continue	<ul style="list-style-type: none"> <li>VOE verifying earnings for most recent two (2) years; <u>AND</u></li> <li>Current paycheck stub; <u>OR</u></li> <li>W-2 for most recent two (2) years &amp; current pay stub reflecting year-to-date earnings.</li> </ul>	Income calculation is based on type of employment. Employment must have been uninterrupted for the last year.

SOURCE OF INCOME	RECEIPT HISTORY	CONTINUATION PERIOD	REQUIRED VERIFICATION	CALCULATION METHOD
<b>PUBLIC ASSISTANCE</b>	Two (2) Years	Three (3) Years	<ul style="list-style-type: none"> <li>Letter from the paying agency confirming the amount, frequency, &amp; duration of payments; <u>AND</u></li> <li>Copies of bank statements for six (6) months evidencing monthly receipt of aide.</li> </ul>	Use monthly aide received.
<b>RENTAL INCOME</b>	Refer to "Rental Income Requirements" later in this Section.			
<b>RETIREMENT AND PENSION</b>	Evidence of Receipt	Two (2) Years	<ul style="list-style-type: none"> <li>Copy of Retirement/Pension Award Letter reflecting amount of monthly payment; <u>AND</u></li> <li>Most recent bank statement showing automatic deposit (deposit must specifically reference the source of the deposit); <u>OR</u></li> <li>1099 for the most recent year.</li> </ul>	Use verified current monthly payment.
<b>ROOM RENTS</b>	Two (2) Years	Likely to Continue	<p>Room rents on an SFR may be considered on Full Doc Only, subject to the following:</p> <ul style="list-style-type: none"> <li>A rental agreement or letter from the tenant; <u>AND</u></li> <li>1040's for most recent two (2) years to verify history of room rent income; <u>AND</u></li> <li>Copy of canceled checks or bank statements for most recent month to verify currently receiving room rent income.</li> </ul> <p>NOTE: The <u>floor plan</u> of the property must support the level of income considered (number of bedrooms vs. number of household occupants). Room rents must be considered "reasonable" and not constitute more than 50% of the qualifying income.</p>	Use average of room rents received from 1040's for most recent two (2) years. Average income is added to borrower's gross income.

SOURCE OF INCOME	RECEIPT HISTORY	CONTINUATION PERIOD	REQUIRED VERIFICATION	CALCULATION METHOD
<b>SEASONAL JOB</b>	Two (2) Years	Likely to Continue	<ul style="list-style-type: none"> <li>• VOE verifying earnings for most recent two (2) years and current year-to-date; <u>AND</u></li> <li>• W-2 Forms for most recent two (2) years; <u>AND</u></li> <li>• Most recent pay stub.</li> </ul>	Average of income for most recent two (2) years. Seasonal job must have been uninterrupted for the most recent two (2) years.
<b>SECOND JOB</b>	Evidence of Receipt	Likely to Continue	<ul style="list-style-type: none"> <li>• VOE verifying earnings for most recent two (2) years &amp; current pay stub; <u>OR</u></li> <li>• W-2 for most recent two (2) years &amp; current pay stub reflecting year-to-date earnings.</li> </ul>	Average of most recent year's W-2 and current year-to-date earnings. Second job must have been uninterrupted for the past year.
<b>SOCIAL SECURITY</b>	Evidence of Receipt	Likely to Continue	<ul style="list-style-type: none"> <li>• Current Award letter; <u>AND</u></li> <li>• Most recent bank statement showing automatic deposit (deposit must specifically reference the source of the deposit); <u>OR</u></li> <li>• 1099 for the most recent year.</li> </ul>	Use verified current monthly income.
<b>SUPPLEMENTAL (DEPENDENT'S) SOCIAL SECURITY</b>	Two (2) Years	Three (3) Years	<ul style="list-style-type: none"> <li>• Current Award letter; <u>AND</u></li> <li>• Most recent bank statement showing automatic deposit (deposit must specifically reference the source of the deposit); <u>OR</u></li> <li>• 1099 for the most recent year.</li> </ul>	Use verified current monthly income. Dependent's age must be disclosed on 1003 and proof of dependent's age will be required.
<b>TEMPORARY EMPLOYMENT</b>	Two (2) Years	Likely to continue	<ul style="list-style-type: none"> <li>• VOE verifying earnings for most recent two (2) year's through current year-to-date &amp; current pay stub; <u>OR</u></li> <li>• W-2 or 1099 for most recent two (2) years, &amp; current pay stub reflecting year-to-date earnings.</li> </ul>	Average of income for most recent two (2) years and current year-to-date earnings (two (2) year history must be uninterrupted).

SOURCE OF INCOME	RECEIPT HISTORY	CONTINUATION PERIOD	REQUIRED VERIFICATION	CALCULATION METHOD
<b>TIPS AND GRATUITIES</b>	Two (2) Years	Likely to Continue	<ul style="list-style-type: none"> <li>• VOE verifying tips and gratuities for most recent two (2) years &amp; current pay stub reflecting year-to-date earnings; <u>OR</u></li> <li>• W-2 for most recent two (2) year &amp; current pay stub reflecting year-to-date earnings.</li> </ul>	Average of tips and gratuities for most recent year and current year-to-date. Monthly average is added to the borrower's gross income.
<b>TRUST INCOME</b>	Two (2) Years	Likely to Continue	<ul style="list-style-type: none"> <li>• Copy of Trust Agreement or statement from Trustee confirming trust is irrevocable, the amount, frequency, and duration of payments; <u>AND</u></li> <li>• Signed 1040's, all schedules for most recent two (2) years</li> </ul>	Average of trust income from most recent two (2) years' 1040's. The assets must be fixed; liquid assets with no limitation on withdrawals will not be considered as a source of income.
<b>UNEMPLOYMENT COMPENSATION</b>	Two (2) Years	Seasonally Employed and Reasonably Predicted	<ul style="list-style-type: none"> <li>• Signed 1040's, all schedules for most recent two (2) years; <u>AND</u></li> <li>• Most recent bank statement supporting deposit.</li> </ul>	Average income for most recent two (2) years. Borrower must receive as a regular part of his or her income.
<b>UNION MEMBERS</b>	Two (2) Years	Likely to Continue	<p>Union members may hold several jobs during a year.</p> <ul style="list-style-type: none"> <li>• VOE(s) verifying earnings for most recent two (2) years through current year-to-date &amp; current pay stub; <u>OR</u></li> <li>• W-2 (S) for most recent two (2) years &amp; current pay stub reflecting year-to-date earnings.</li> </ul> <p>NOTE: If current year-to-date earnings are not available, the borrower's most recent six (6) months bank statements must be obtained to support earnings.</p>	Average income for most recent year and current year-to-date earnings. A stable earnings trend must be established.

SOURCE OF INCOME	RECEIPT HISTORY	CONTINUATION PERIOD	REQUIRED VERIFICATION	CALCULATION METHOD
<b>VA BENEFITS</b>	Two (2) Years	Three (3) Years	<ul style="list-style-type: none"> <li>Award Letters covering most recent two (2) years; <u>AND</u></li> <li>Most recent bank statement reflecting direct deposit (deposit must specifically reference the source of the deposit).</li> </ul> <p>NOTE: Education Benefits are not acceptable income.</p>	Average of income received for most recent two (2) years, or current income, whichever is lower.
<b>WAGE EARNER</b>	Two (2) Years	Likely to Continue	<ul style="list-style-type: none"> <li>VOE verifying earnings for most recent two (2) years through current year-to-date &amp; current pay stub; <u>OR</u></li> <li>W-2 for most recent two (2) years &amp; current pay stub reflecting year-to-date earnings.</li> </ul>	Monthly gross income.
<b>WORKERS' COMPENSATION (TEMPORARY)</b>	Six (6) Months	Not Applicable	<ul style="list-style-type: none"> <li>Copy of Insurance Award Letter reflecting amount of temporary monthly payment and disability check; <u>AND</u></li> <li>Signed letter from borrower's employer indicating continuance of employment is guaranteed and the date borrower is expected to return to work; <u>AND</u></li> <li>Current paycheck from current employer.</li> </ul>	Borrower must have returned to work. Use base income from most recent paycheck stub.



### VI. RENTAL INCOME REQUIREMENTS

Rental income from the purchase of a vacant property will require a 1007 survey if it is the subject of an Acra loan. The following documentation is required for all investment properties owned by the borrower. See Departure Properties section for more information.

#### RENTAL INCOME

##### *Rental Properties Owned (excluding owner occupied primary residence)*

#### FULL DOC

- Current rental / lease agreements; AND
- Complete Schedule of Real Estate Owned; AND
- Signed Schedule E for most recent two (2) years.

Tenant occupied properties will require documentation of timely receipt for the prior two (2) months rental payments. If a vacant property is being purchased for investment, 75% of market rents may be used to offset payment and inclusion in calculation for qualifying income or liabilities.

NOTE: If the borrower owns any 5+ units / apartments, the income figure will be taken from Schedule E.

#### ALT DOC

- Complete Schedule of Real Estate owned AND
- Copy of current rental / lease agreements

Tenant occupied properties will require documentation of timely receipt for the prior two (2) months rental payments.

**DEBT SERVICE  
COVERAGE RATIO  
("DSCR")**

Acra calculates the DSCR by dividing (a) the lesser of (i) annual in-place rent or (ii) market rent (reference §14.14) by (b) the sum of annual principal, interest, real estate taxes, property insurance, and homeowner's / condominium association fees (collectively, "PITIA"). Subordinate financing, if applicable, would also be included in the denominator for the sake of this calculation.

If a vacant property is being purchased, qualifying rents are taken from the 1007 or 1025 Appraisal report, as applicable, for qualifying income.

Acra can accept short term rentals with 12-month ledgers from condotel management companies, property managers, AirBnB, VRBO, etcetera as documentation for actual rents. Properties qualifying with short term rentals are limited to 75% & 70% LTV / CLTV for Purchase or Refinance transactions respectively.

For properties that are operated as an Adult Care Facility ("ACF") / Assisted Living Facility ("ALF"), Acra will compute the DSCR by utilizing the reconciled market rents based on Appraisal Form 1007.

If the Applicant has had forbearance or mortgage lates within the last 12-months, Tenant occupied properties will require documentation of (i) timely receipt for the prior two (2) months rental payments or (ii) 12-months of subject's payment in reserve, which may be from transaction's cash-in-hand.

The minimum rental income required is outlined in the Program Matrix.

NOTE: Where the borrower is qualifying utilizing the subject property's actual or market cashflow under a business purpose transaction, borrower must execute with loan docs a Business Purpose Attestation (Exhibit 8) or other similar attestation approved by Acra.

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### VII. RENTAL INCOME WASH

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For bank statement loans that have REO's where rental income is needed, the existing bank statements will be used for all income. However, if the rental income is deposited to another bank account, Underwriting will require the last three (3) months bank statements for the new account and each of the rental amounts must show as deposits. If Underwriter can clearly see the rental income being consistently deposited, Underwriter will use the rental income and net it against the PITI payment for qualification.

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## VIII. SELF-EMPLOYED BORROWER

### 5.16 PRINCIPLE BUSINESS STRUCTURES FOR SELF-EMPLOYED BORROWERS

A borrower who owns twenty-five percent (25%) or more of a business entity is considered self-employed. A self-employed borrower must be carefully evaluated as the success of the company is directly related to a borrower's financial ability to repay debts.

There are FOUR principal business structures for self-employed borrowers as follows:

#### DEFINITIONS

### 5.17 SOLE PROPRIETORSHIP

#### **Sole Proprietorship**

In a sole proprietorship, the individual owner has unlimited personal liability for all debts of the business. Since no distinction is made between the owner's personal assets and the assets used in the business, creditors may take either (or both) to satisfy business obligations. The success of this type of organization depends solely on the individual who owns it. His or her death would terminate the business and place the assets into probate, delaying the disposition of the assets to creditors and heirs. Business income or loss is folded into the individual owner's tax return.

#### **Independent Contractor & Commission Income**

An independent contractor is an individual whose income is derived through independent / other sources or an individual whose income is derived from commissions that constitute 25% or more of his / her yearly income.

### 5.18 PARTNERSHIP

#### **General Partnership**

A general partnership is dissolved immediately on the death, withdrawal, insanity, or insolvency of any of the partners – although the personal liability to partnership creditors exists even after the partnership is dissolved. In a general partnership, each partner is personally liable for the debts of the entire business and is responsible for the actions of every other partner.

#### **Limited Partnership**

A partnership is formed when two or more individuals form a business and share profits, losses, and responsibility for running the business. In a limited partnership, a partner has limited decision – making ability and his or her liability is limited to the amount he or she invested in the partnership. A limited partner's death, withdrawal, insanity, or insolvency does not dissolve the partnership. Individual partners pay taxes on their proportionate share of net partnership income at their individual tax rate.

### 5.19 S CORPORATION

An S Corporation is generally a smaller business entity with a limited number of stockholders. Business gains and losses are passed on to the stockholders. Stockholders are taxed at their individual tax rate for their proportionate share of ownership. Income for an owner that comes from wages is folded into the individual's tax return.

**5.20  
CORPORATION**

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A corporation is a state-chartered business that is owned by stockholders. A stockholder is not personally liable for the debts of the corporation. Although legal control of the corporation rests with its stockholders, they are not responsible for the day-to-day operations of the business since they delegate that responsibility to a board of directors and officers of the company. Corporations must file corporate tax returns to report their income and losses. Income to the officers is folded into each officer's individual tax return.

**5.21  
LENGTH OF SELF-  
EMPLOYMENT**

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Income from a self-employed borrower generally requires two (2) or more years to be considered stable income. A person who has been self-employed for less than one (1) year should have a history of previous successful employment in the same occupation or a related field. The underwriting process must carefully analyze the following factors on a self-employed borrower:

- Borrower's training and experience;
- Location and nature of the business; and
- Demand for that type of business in the area.

A borrower who has been self-employed for less than one (1) year may be considered on a case-by-case basis subject to the following:

1. Self-employment must be in the same line of work as previous employment; and
  2. One (1) full year of income verified / documented with one (1) year of federal income tax returns and a current profit and loss statement.
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### IX. ACCEPTABLE EVIDENCE OF SELF-EMPLOYED BUSINESS

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Documentation to support the borrower's self-employment in a legitimate and active business covering the most recent two (2) years, as of the application date, must be obtained on income documentation programs that are less than Full Doc (i.e.: Alt Doc). Acra will accept the items listed below to support the borrower's self-employed business.

One (1) item from the following list may be used for verification of a current and active business.

1. Copy of the business license covering the current business year as of the date of the application.
  2. Copy of the Articles of Incorporation, Operating Agreement, or Partnership Agreement with recorded filing date.
  3. Tax Preparer's Letter:
    - Letter must be on tax preparer's letterhead;
    - Tax preparer's license verification, from municipal, state or federal licensing boards or proof of their business' existence; and
    - Signed letter from the borrower's tax preparer explaining:
      - (i) tax preparer's relationship to the business;
      - (ii) personal knowledge of the length of time the business has been in existence; and
      - (iii) percentage of borrower's ownership in the business entity.
  4. Two (2) years of business tax returns in the form of 1065, 1120 or 1120S and corresponding Schedule K1 (if applicable).
  5. Two (2) years of business tax returns in the form of 1040 and corresponding Schedule C.
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## X. INCOME TAX RETURNS FOR SELF-EMPLOYED BORROWERS

The income documentation required to qualify self-employed borrowers may include income tax returns or a copy of the borrower's monthly bank statements. The IRS income tax forms required for qualifying self-employed borrowers are as follows:

INCOME DOCUMENTATION						
Business Type	1040	1065	K-1	1120S	1120	P&L
Sole Proprietor	X					X
General Partner	X	X	X			X
Limited Partner	X	**	X			**
S Corporation	X		X	X		X
Corporation	X				X	X

∂ Current, signed Profit & Loss Statement is required when tax returns will be more than ninety (90) days old at underwriting or 120 days at closing.

\*\* If the borrower owns more than 25% of a partnership.

## XI. SELF-EMPLOYED BORROWER – IRS TAX RETURN CHART

SOURCE OF INCOME	RECEIPT HISTORY	CONTINUATION PERIOD	REQUIRED VERIFICATION ∂	CALCULATION METHOD
Sole Proprietor	Two (2) Years	Likely to Continue	<ul style="list-style-type: none"> <li>Signed 1040's, including all schedules for most recent two (2) years <u>AND</u></li> <li>Current YTD P&amp;L with bank statements for the three (3) preceding months</li> </ul>	1040 Schedule C Net income / loss, plus non-cash expenses.
General Partnership	Two (2) Years	Likely to Continue	<ul style="list-style-type: none"> <li>Signed 1040's &amp; 1065's &amp; K-1's including all schedules for most recent two (2) years <u>AND</u></li> <li>Current YTD P &amp; L with bank statements for the three (3) preceding months</li> </ul>	Income average using 1040, Schedule E and 1065 borrower's percentage of ownership.
Limited Partnership	Two (2) Years	Likely to Continue	<p><u>If &lt; 25% Ownership:</u></p> <ul style="list-style-type: none"> <li>Signed 1040's &amp; K1's, including all schedules for most recent two (2) years <u>AND</u></li> <li>Current Profit &amp; Loss with bank statements for the three (3) preceding months</li> </ul> <p><u>If &gt; 25% ownership</u></p> <ul style="list-style-type: none"> <li>Signed 1040's, &amp; 1065's &amp; K-1's, including all schedules for most recent two (2) years <u>AND</u></li> <li>Current YTD P &amp; L with bank statements for the three (3) preceding months</li> </ul>	Income average using 1040 and K1.

SOURCE OF INCOME	RECEIPT HISTORY	CONTINUATION PERIOD	REQUIRED VERIFICATION <sup>o</sup>	CALCULATION METHOD
"S" Corporation	Two (2) Years	Likely to Continue	<ul style="list-style-type: none"> <li>Signed 1040's, &amp; 1120-S, including all schedules for most recent two (2) years <u>AND</u></li> <li>Current YTD P &amp; L with bank statements for the three (3) preceding months</li> </ul>	Income average using 1040's and 1120-S.
Corporation	Two (2) Years	Likely to Continue	<ul style="list-style-type: none"> <li>Current pay stub reflecting year-to-date earnings <u>AND</u></li> <li>Signed 1040's &amp; 1120's, including all schedules for most recent two (2) years, <u>AND</u></li> <li>YTD P &amp; L with bank statements for the three (3) preceding months</li> </ul>	Average income using 1040's and income from 1120's based on borrower's percentage owned.

**BRIDGE THE GAP** - If tax returns are not available for the most recent tax year, the following must be obtained:

<b>Prior to April 15<sup>th</sup></b>	<ol style="list-style-type: none"> <li>Previous two (2) year tax returns; <u>AND</u></li> <li>Year-end P &amp; L statement covering 12 months of the most recent tax year and current tax year through year to date.</li> </ol>
<b>After April 15<sup>th</sup></b>	<ol style="list-style-type: none"> <li>Previous two (2) year tax returns; <u>AND</u></li> <li>Copy of IRS Extension for Filing; <u>AND</u></li> <li>Year-end P &amp; L statement covering the most recent tax year and the most recent quarter of the current tax year.</li> </ol>
<b>2020 Tax Date</b>	In response to the novel coronavirus in 2020, the taxing authorities extended the filing date from 04/15/2020 to 07/15/2020. The above dates may be edited without IRS Extension.



**XII. EVALUATING SELF-EMPLOYED DOCUMENTATION - GENERAL REQUIREMENTS****5.22  
ANALYZING SELF-  
EMPLOYED  
BORROWER'S  
INCOME TAX  
RETURNS**

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The tax returns for the self-employed borrower's business must be analyzed to ensure the business' financial strength and to confirm that it will continue to generate the income the borrower needs to qualify for the requested loan. All income tax returns require the borrower's original signature.

**5.23  
INCOME  
AVERAGING**

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Self-employment income or commission income is determined by averaging the income from the tax returns including all schedules and attachments. Income from the year-to-date P & L statement may be included in the income calculation if consistent with the previous years' earnings.

**5.24  
SELF-EMPLOYED  
INCOME ANALYSIS  
FORM**

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The Self-employed Income Analysis form should be completed by the underwriter and included in the loan file.

**5.25  
DEDUCTIBLE  
EXPENSES**

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Deductible expenses for the business that are attributable to non-cash expenses are "depreciation", "depletion" and "amortization". These non-cash expenses may be added back to the net income / loss for qualifying purposes. Depreciation is a deduction for the decline in value of an asset such as real or personal property and is not an out of pocket expense. (Note: For IRS Form 1065 and 1120S, depreciation is taken from the first page of the return and not from Form 8825.) Depletion is a deduction for the useful life of a natural resource and is not an out-of-pocket expense. Amortization is an intangible asset, such as a copyright or patent over its useful life, which may include start-up costs. Amortization is not an out-of-pocket expense.

**5.26  
DECLINING  
INCOME**

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A continuing large decline in gross income over two (2) or three (3) years could be a reason to decline a loan application; even if the borrower's current income and debt ratios meet the guidelines. The actual income source, not just the total income must be analyzed. For example, adjusted gross income could be increasing yearly because of items not related to the business (such as by capital gains from the sale of real estate), but the actual business income could be declining yearly. If declining income for the last two (2) years is evident, the lesser income figure should be used for qualifying purposes.

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## SECTION 6 – DEBTS AND LIABILITIES

### 6.1 BORROWER'S DEBTS AND LIABILITIES

The borrower's debts and liabilities include all revolving charge accounts, installment loans, real estate loans, negative income from rental properties, stock pledges, alimony, child support, and all other debts of a continuing nature. Verification is required for any other liability not reflected on the credit report.

### 6.2 ALIMONY / CHILD SUPPORT

Monthly payments that extend beyond ten (10) months are included in debt-to-income ratio. A copy of the complete divorce decree and dissolution of marriage must be provided and included in the loan file.

### 6.3 BUSINESS DEBT

The monthly payments for business debts are not included in the borrower's debt-to-income ratio if the payments have been made in a timely manner by the business entity.

The business debt must be counted in the debt-to-income ratio if:

- Payments by the primary obligor cannot be adequately documented; or
- The business bank account used to qualify is being used to pay a debt the applicant personally signed for or is appearing on the applicant's credit report; or
- A sufficient payment history has not been established for the debt; or
- If the debt has been delinquent greater than 1 x 60 in the last six (6) months.

In instances where it can be documented that the business has been paying the debt on time for the last six (6) months and the funds are not coming from the business account used to qualify, the debt will not be calculated in the applicant's DTI ratio.

### 6.4 CONTINGENT LIABILITIES / Co- SIGNED DEBT

The monthly payments for contingent liabilities are not included in the borrower's debt-to-income ratio, if the payments have been made in a timely manner. Canceled checks covering the last six (6) months' showing no late payments by the primary obligor will be required.

The contingent liability must be counted in the debt-to-income ratio if:

- Payments by the primary obligor cannot be adequately documented; or
- A sufficient payment history has not been established for the debt; or
- If the debt has been delinquent greater than 1x60 in the last six (6) months; or
- The borrower is making payments on someone else's credit accounts for at least the last six (6) months

When using business bank statements to qualify, all debts on credit must be added to DTI regardless of if the business is paying the debt from the same account used to qualify.

### 6.5 INSTALLMENT ACCOUNTS

Monthly payments on installment debts\* extending beyond ten (10) months are included in the borrower's debt-to-income ratio. The required monthly payment reflected on the most recent statement may be used instead of the payment reflected on the credit report.

\*Auto lease contracts provide the consumer with an option to either purchase the automobile or return it to the dealer at the end of the lease contract. Regardless of the two options, it is likely the consumer will secure new financing for another automobile once the lease expires. Therefore, monthly auto lease payments are included in the borrower's debt-to-income ratio regardless of the number of payments remaining on the lease contract. If no payment info is showing on the credit report, the calculation of the monthly payment will be 2% of the higher of the current unpaid balance or the high credit limit.

### 6.6 LINES OF CREDIT

Monthly payments must be calculated on revolving lines of credit and included in the applicant's debt-to-income ratio. The monthly payment is determined based on the present outstanding balance.

### 6.7 MORTGAGE PAYMENTS FOR RENTAL PROPERTIES

The monthly mortgage payments must be satisfactorily documented on all rental properties owned by the borrower, if not reported on the credit report.

Property Taxes, Insurance, and HOA Fees for Rental Properties Owned by the Borrower.

The monthly payments for taxes, insurance, and Homeowner's Association (HOA) fees (if applicable) will be taken from the Schedule of Real Estate. If the Schedule of Real Estate is incomplete or blank, the borrower must provide satisfactory documentation verifying the amount of the monthly payments.

If the monthly payments for taxes and insurance are impounded, the borrower must provide satisfactory documentation verifying an impound account.

### 6.8 PROPERTY OWNED FREE AND CLEAR

A subject property that is owned free and clear requires proof that the property is free and clear of all mortgage liens.

A chain of title covering the last twelve (12) months must be obtained and reviewed by the underwriter for property flipping and / or suspicious or conflicting property transfers.

Any property on the REO section of the 1003 that is shown to be owned free and clear (zero balance mortgage) must be unencumbered and corroborated with the credit report to show no additional open mortgage account(s).

### 6.9 REVOLVING TRADE LINES OF CREDIT

Monthly payments of all revolving accounts with outstanding balances are included in the calculation of the debt-to-income ratio calculation. The monthly payments reflected on the credit report are used for the calculation of debts. When revolving accounts with outstanding balances do not have stated minimum required payments, the monthly payment calculation is five percent (5%) of the outstanding balance or \$10 per month, whichever is greater.

A ninety-day same as cash account is considered a revolving account, the monthly payment is calculated using five percent (5%) of the outstanding balance.

### **6.10 STUDENT LOANS**

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Independent of any actual or potential deferment, the monthly payment will be included in the debt-to-income ratio for qualifying.

At LTVs of 65% or less on purchase and 60% or less on refinances:

- Student loans with greater than three (3) years from their DLA do not need to be paid off nor, if remaining outstanding, included in the DTI ratio; and
- Student loans in collection status for longer than three (3) year old do not need to be paid off, nor, if remaining outstanding, included in the DTI ratio.

### **6.11 TIMESHARES**

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All timeshare accounts are treated as consumer debt.

### **6.12 CONSUMER DEBT PAYOFFS**

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Acra will require (i) an account's periodic statement, (ii) demand, OR (iii) credit supplement. Document must include (a) creditor's name, (b) mailing address, (c) phone number, (d) account number, AND (e) outstanding balance.

The payoff balance utilized will be the most recent of the above document(s) or Acra's credit report. The account's balance may be updated, without including all of the above requirements (a-e), with a (x) credit supplement or (y) current on-line print out. Either supplementary document must be able to identify account number or partial account number to tie into document(s) previously provided.

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## SECTION 7 – DEBT-TO-INCOME

### 7.1 ROUNDING DEBT- TO-INCOME RATIO

Round the debt-to-income ratio to the nearest whole number.

Example:        45.01% - 45.49% round down to 45.00%  
                     45.50% - 45.99% round up to 46.00%

### 7.2 DEBT-TO-INCOME RATIO

The Debt-to-Income ratio represents the ratio of the applicant's stable monthly income to the total monthly-debt-payment. (Total monthly debt divided by total income.) The monthly debt payment is the sum of the following monthly charges.

#### MONTHLY HOUSING EXPENSE

1. Principal and Interest Payments:
  - ARM with 12-month Adjustable Periodic Periods:  
Use the higher of (i) fully indexed rate for first five (5) or seven (7) years (reference §7.5 below) or (ii) the initial start rate
  - Fix Rate for Term of Loan:  
For any fixed rate, such as a 30-year fixed, use the start rate
2. Payments on subordinate financing on the borrower's principal residence (if applicable)
3. Hazard insurance
4. Flood Insurance (if applicable)
5. Mortgage Insurance (if applicable)
6. Real estate taxes and / or assessments
7. Homeowner's association fees on the borrower's principal residence (if applicable)

#### OTHER DEBTS AND OBLIGATIONS

1. A ninety-day same as cash account is considered a revolving account, the monthly payment is calculated using five percent (5%) of the outstanding balance.
2. Monthly payments on all revolving trade lines [does NOT include any type of household utilities (i.e.: gas, water, electric, trash, television, house & / or cell phone, internet, etcetera) that may be reporting on credit].
3. Alimony, child support, or separate maintenance payments (if applicable).
4. Monthly payments on installment debts with maturity dates greater than ten (10) months.
5. Aggregate negative net rental income from all investment properties owned.
6. Monthly mortgage payments (PITI) for second homes.

### 7.3 TRANSACTIONS EXEMPT FROM DTI CALCULATIONS

Acra will not calculate a DTI for applicants who qualify using a Debt Service Coverage Ratio ("DSCR") or by proving Assets only ("ATR-In-Full"). Mechanically, any income or employment listed on an application will be deemed superfluous to the underwrite and, as the alternate, may be left blank. Should the employment and income be represented on an application, a DTI should not be calculated.

## 7.4 DEBT RATIO CALCULATION FOR RENTAL PROPERTIES

### OWNER OCCUPIED 2-4 Unit Property – Subject

1. Monthly gross rents from the subject's non-owner occupied units.
2. Add gross rental income to borrower's monthly income.
3. New PITI on subject added to borrower's personal debts divided by total monthly income = debt-to-income ratio.

### INVESTMENT PROPERTY SFR, Condo / PUD, 2-4 Unit – Subject

1. Gross monthly rent.
2. Rent minus new PITI on subject property = positive or negative rent. (If positive add to income, if negative include in debt.)
3. Monthly payment for borrower's primary residence added to borrower's personal debt (include negative rent for subject, if applicable) divided by total monthly income = debt-to-income ratio.

### OTHER RENTAL PROPERTY OWNED by the Borrower – Not the Subject

1. Gross monthly rent
2. Rent minus PITI on rental property = positive or negative rent (if positive add to income, if negative include in borrower's debts)

### SECOND HOME

1. The borrower must qualify for the New PITI on the second home.
2. Monthly payment for borrower's primary residence added to New PITI on subject second home and borrower's personal debt divided by total monthly income = debt-to-income ratio.

## 7.5 CALCULATION FOR INTEREST ONLY PAYMENTS

Interest Only ("IO") payments are calculated as the amount sufficient to pay the accrued interest to the mortgage on a monthly basis at the time of origination. IO payments are usually for a set term at the beginning of and within the overall repayment term for the mortgage. After such term, a borrower's payments are recast to a calculated fully amortized payment for the balance of the mortgage's term ending with the set maturity date.

Acra calculates the DTI ratio utilizing the first fully amortized payment and the original mortgage balance. Note also that if the mortgage is an ARM, Acra will also calculate the fully amortized payment utilizing the highest achievable interest rate as of that first fully amortized payment's due date.

Acra calculates the DSCR utilizing the first payment due under the terms of the Note.

Example: A \$100,000 mortgage on a 30-year term at 6.000% would have an IO payment of \$500.00 monthly or a fully amortized payment of \$599.55. If the mortgage also had a 5-year adjustable-rate component with a 2.0 initial rate adjustment cap, the maximum payment in month 61 (the first fully amortized payment AND also the first payment after the initial rate adjustment) would be \$771.82 utilizing a 25-year remaining term and an interest rate of 8.000%.

## 7.6 INTEREST RATE CALCULATION FOR PAYMENTS

The subject loan's payment for an accurate DTI calculation should utilize the higher of (i) the Fully Indexed Rate or (ii) the note rate.

Fully Indexed Rate means the interest rate calculated using (x) the index or formula that will apply after recast, as determined at the time of consummation, and (y) the maximum margin that can apply at any time during the loan term.

### **7.7 HERO / PACE PROPERTY TAX CALCULATIONS**

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For loans with less than or equal to 80% LTV, if there is a HERO, PACE, or energy efficiency loan that is currently collected through property taxes and borrowers are paying off the HERO / PACE / energy efficient loan at closing, correct current property tax amount must be included in impounds but does not need to be included in debt service.

This will require manual calculation of property taxes extracting the HERO / PACE / energy efficient loan amount then calculating balance. Underwriter will need to notate file the DTI based on exclusion of the HERO / PACE / energy efficient loan property tax piece as will not match actual DTI, which is being calculated using full property tax assessment that includes HERO / PACE / energy efficient loan.

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## SECTION 8 – ASSETS / FUNDS

### 8.1 SOURCE OF FUNDS

The source of funds on all transactions can be from any of the following sources:

- Borrower's own funds;
- Gift from a relative (refer to Gift Funds); or
- Seller or institutional second mortgage.

### 8.2 CONTRIBUTIONS BY INTERESTED PARTIES (SELLER CONTRIBUTIONS)

Any closing costs normally paid by the property purchaser are considered contributions if not paid by the purchaser. Contributions may be paid by the property seller or by any other interested party to the transaction – such as the builder, the developer, the real estate agent, the lender, or any of their affiliates.

On purchase money transactions contributions by interested parties (i.e.: Realtor, Builder, and Seller) are acceptable and may be applied only towards non-recurring closing costs. For first mortgage loans, the maximum contribution by interested parties are as follows:

A maximum percentage of the purchase price may be contributed consistent with the Purchase Money: Maximum Contributions subsection of this text.

A copy of the fully executed sales contract is required. Any excess credit, gift allowance or amount toward recurring closing costs must be deducted from the lower of the sales price or appraised value when calculating the LTV and CLTV.

#### Items Not Considered Contributions

Items paid by the property seller that are the seller's responsibility – such as real estate sales commissions, charges for pest inspections, fees paid to trustees to release a deed of trust, or costs that the property seller is required to pay under state or local law – are not contributions.

Funds the purchaser receives from a non-participant to the sales transaction – such as the property purchaser's employer or a family member – are not considered contributions, even when they are used to pay closing or settlement costs. For example, funds received from the purchaser's employer through a corporate relocation plan are not considered a contribution. Funds received from a relative of the purchaser would be considered as a gift (not a contribution) and, as such, would have to comply with our requirements regarding gifts.



### 8.3

#### **NON-RECURRING CLOSING COSTS**

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- Appraisal
- Appraisal Desk Review
- Appraisal Field Review
- Attorney Fees
- Broker Admin Fee
- Broker Fee
- Courier Fees
- Credit Report
- Discount Fees / Points
- Document Fee
- Document Redraw Fee
- Endorsement Fees
- Escrow Fee
- Flood Certification Fee
- Inspections
- Lender Points
- Mortgage Insurance Premium (Initial or 1st year)
- Notary Fees
- Photos
- Prepaid Interest
- Processing Fee
- Recording / Filing Fees
- Taxes for Govt. Fees
- Tax Service Fee
- Termite Report
- Title Fee
- Underwriting Fee
- Warehouse Fee
- Wire Transfer Fee
- Withhold Fee

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### 8.4 VERIFICATION OF ASSETS / FUNDS

Funds to close are to be properly verified on purchase-money transactions and where applicable on rate / term refinances. Verification of funds is not required for cash-out refinances.

#### SOURCE OF FUNDS:

- The source of funds for closing should be reflected on the loan application; and
- Verification of acceptable source of funds is required for all funds paid OUTSIDE of escrow / closing, which may be reflected as a credit on the purchase contract, escrow instructions or closing statement.

#### SEASONING OF FUNDS:

- Verification of the seasoning of funds to close is not required on loans of:
  - 65% or less LTV / CLTV for the consumer transactions; or
  - 70% or less LTV / CLTV for Business Purpose / DSCR loans; or
  - If the amount of assets / funds to close is greater than \$50,000, it will be required to be documented regardless of LTV / CLTV.

Where the account(s) serving as the source of funds must be verified, verification of the seasoned funds may include the following:

- Copy of the borrower's bank statement(s) for the most recent month(s); or
- A VOD reflecting a current and average balance for the most recent month(s).

Consumer transactions require a minimum of 60-days documentation versus business purpose, which require a minimum of 30-day documentation.

\* A maximum variance of 1% of the subject loan amount is allowable for the necessary funds-to-close versus the final asset statements.

Note: In contrast to the above, but consistent with §3.10.1 of this Guide, funds held in a foreign bank / currency will need to be repatriated at minimum three (3) business days prior to Closing and Foreign Nationals, regardless of LTV / CLTV, need to document a minimum of 60 days seasoning.

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### I. ACCEPTABLE ASSETS / FUNDS TO CLOSE

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**8.5  
DEPOSIT  
ACCOUNTS**

Verification of deposit accounts such as checking, savings, certificate of deposit, and money market accounts may include the following documentation:

- Verification of Deposit; or
- Copy of the borrower's most recent bank statement(s) for the account(s) in which the funds for the funds to close are to be withdrawn.

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**8.6  
EARNEST MONEY  
AND DEPOSIT**

Earnest Money and Deposit on Sales Contracts are considered part of the down payment. Earnest money and deposits exceeding two percent (2%) of the sales price or \$1,000.00, whichever is less, requires verification by one of the following:

- Copy of check (canceled or not canceled) with certified escrow deposit receipt.
- Bank statement showing the check cleared with certified escrow deposit receipt.

Verification of acceptable source of funds on any deposit paid outside of escrow must be satisfactorily documented.

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### 8.7 GIFT FUNDS

Gift funds from a family member to assist with the costs to close are permitted on purchase money transactions for any type of occupancy – subject to specified limits.

Acceptable Donors may include:

- Family members (i.e.: spouse, any type of domestic partnership or union, fiancée, boyfriend / girlfriend, parent, brother, sister, child, grandparent, aunt, uncle, nephew, niece); or
- Non-profit organizations when given pursuant to an established program (case-by-case, require corporate underwriting approval).

Limitations to gift funds:

- Primary Residence – No limit to amount of transaction; or
- Investment Property or Second Homes – Applicant(s) will be required to contribute a portion of their own sourced and seasoned funds to the transaction of the larger of (a) 15% of the purchase price or (b) \$50,000.

GIFT LETTER – required on all Gifts and must include:

1. Reflect the borrower's name;
2. Reflect the Donor's name, address and phone number;
3. Reflect the Donor's relationship to the borrower;
4. Disclose the source of the gift funds (i.e.: name of depository institution, account number);
5. Indicated the dollar amount of the gift;
6. Include a statement that the person receiving the gift (i.e.: borrower) is not obligated to repay the dollar amount of the gift;
7. Include a statement: "The funds given to <enter borrower(s) name(s)> were not made available to the donor from any person or entity with an interest in the sale of the property including the seller, real estate agent or broker, builder, loan officer, or any entity associated with them."; and
8. Signed and dated by the Donor and Borrower(s).

Receipt of Gift Funds

Evidence (a) that the gift funds have been transferred from the donor's account to the borrower and (b) that the gift funds came from an acceptable source, must be documented in the file. Acceptable evidence may include:

- Copy of the wire receipt from the donor's account into the borrower's account; OR
- Copy of the certified check from the donor to the borrower; OR
- If the gift funds were deposited directly in escrow, a copy of the check with a certified escrow deposit or wire receipt showing funds were from the donor's account is required; OR
- If the gift funds were deposited directly to the borrower's bank account, a complete bank statement showing the deposited amount and date of deposit with ability to tie the relevant deposit(s) to the Donor.

The documentation evidencing the transfer of funds must match the information on the gift letter (i.e.: the remitter's name (donor), borrower's name, dollar amount, date, name of the depository institution, and account number).

If the documentation for receipt of gift funds does not provide sufficient proof they came from the donor's account, the donor must provide account statements covering the most recent two (2) months to establish his or her ability to provide the gift. In addition, the donor's funds must be seasoned a minimum of 60 days

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and proof the funds were withdrawn and / or transferred to the borrower's account or to escrow will be required.

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### **8.8 GIFT OF EQUITY**

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Gift Equity is allowed provided the following is met:

1. Treat as a purchase transaction. Fully executed purchase agreement is required.
2. The donor of the gift of equity must be from a family member (i.e.: spouse, any type of domestic partnership or union, fiancée, boyfriend / girlfriend, parent, brother, sister, child, grandparent, aunt, uncle, nephew, niece).
3. Donor / Gifter cannot be a resident of the subject property where the transaction is a proposed investment or second home to Buyer.
4. A gift letter signed and dated by the donor and borrower is required. The gift letter must explain the gift of equity, stating the amount of the gift and that no repayment is expected or implied.
5. Proof the existing mortgage lien(s) secured by the subject property is not currently delinquent.
6. The borrower's minimum contribution towards the costs to close must comply with Acra's minimum requirements.

A Power of Attorney ("POA") may not be utilized in a transaction where the Donor's interest is being represented by a POW, where said POA is also the beneficiary to the gift.

### **8.9 IRA, KEOGH**

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Only a withdrawal amount may be considered. The loan file must include a copy of the IRA or Keogh Account Statement and proof of liquidation. A deposit receipt showing the funds on deposit in the borrower's account or the funds deposited into escrow is required.

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**8.10  
IRS 1031  
EXCHANGE**

The 1031 Tax Deferred Exchange (1031 Exchange) feature provides Borrowers with an additional means for obtaining down payment funds. A tax deferred exchange allows a borrower to exchange the "like kind" investment property as long as the acquired property is of greater or equal Value to the relinquished property. A 1031 Exchange allows the borrower to continue the old property investment into the new replacement property for delayed tax purposes. The borrower or any related party / parties to the borrower, such as spouse, ancestors, descendants, siblings, employees, attorney, accountant, investment banker, broker, or real estate agent cannot control the funds from the 1031 Exchange.

Funds received by the borrower from an IRS 1031 Exchange must meet the following criteria:

- The subject property must be a non-owner occupied (investment) property.
- A Qualified Intermediary, who acts on behalf of the borrower in accordance with a specific written contract, must control the funds. The Qualified Intermediary, for a fee, acts to facilitate the deferred exchange by entering into an agreement to exchange the properties. Under this agreement, the Qualified Intermediary sells the relinquished property, acquires the replacement property, and transfers the replacement property to the exchanger (i.e.: borrower).
- The exchange must be an arm's length transaction in which the parties involved are entirely independent of one another with no reason to collude. Title reports, sales contracts, and sales history must be reviewed on both properties if simultaneous closing to determine property churning is not occurring.
- The property must be reduced to cash in an arm's length transaction. If a replacement property is not available at the time of the relinquishment, the borrower can sell the subject property and place the proceeds in an escrow account held by the Qualified Intermediary to be applied toward a replacement property when one becomes available.
- The 1031 Exchange cannot be an exchange of a partnership or limited liability corporation interest.
- The name of the taxpayer on the sale of relinquished property must be the same as the acquirer of the exchanged property.
- Relinquished property sale must close before or simultaneously with the property acquired.

1. Simultaneous Closing

The following documentation is required for simultaneous closing:

- Exchange agreement identifying the holder of funds, buyer and home seller, expiration date, agreed upon value, closing date, closing costs, conditions of transfer and repairs, if required; and
- CD / HUD-1 from Sold Property showing proceeds available for the purchase; and

2. Relinquished Property and Purchase of New Property

The following documentation is required for 1031 Exchange transactions occurring prior to the purchase of the new property:

- Exchange agreement; and
- Verification of funds from Qualified Intermediary (exchange holder).

**8.11  
LIFE INSURANCE  
CASH VALUE**

The cash value must be verified by a letter from the insurance company and a deposit receipt showing deposit of funds into the borrower's account.

### **8.12 LOAN SECURED BY BORROWER'S ASSET(S)**

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Proceeds from a loan secured by an asset that is owned by the borrower is an acceptable source of funds for closing provided the following criteria is met:

- The loan must be secured by an asset owned by the borrower such as, certificates of deposit, stocks, bonds, real estate other than the subject property, life insurance policies, savings accounts, profit sharing plans, and automobiles.
- The loan must be from an institutional lender and disclosed in the liability section of the loan application at submission to underwriting, or revised accordingly.
- The borrower must qualify with the payment of the additional debt, if said additional debt has a required repayment.
- The terms of the debt must be verified by the institution or by a copy of the loan documentation.
- The closed loan package must contain a copy of the executed note reflecting the same terms as disclosed in the submission package.
- Proof of receipt of the funds must be provided in the closed loan package.

### **8.13 RELOCATION CREDITS AND RESIDENCE LIQUIDATION**

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A copy of the commitment letter from the employer's relocation company describing the details and terms of the relocation package. A receipt showing the deposit of funds into the borrower's account or escrow/title must be obtained and included in the loan file.

### **8.14 SALE OF REAL PROPERTY**

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If the source of funds to close the subject transaction will be proceeds from the sale of real estate owned by the borrower, the amount of the net proceeds must be documented as follows as of the time of initial underwrite:

#### Pending Sale

- If the sale has not closed, a copy of the agreement of sale and estimated Settlement Statement (CD or HUD-1) must be obtained and reviewed by the underwriter to ensure the net proceeds will be sufficient for closing. The final Settlement Statement (CD or HUD-1) showing sufficient funds to close must be provided at closing and included in the loan file.

#### Closed Sale

- If the sale has closed, a copy of the Final Settlement Statement must be provided. Verification that the net proceeds from the sale are either held in escrow / title or on deposit in the borrower's account must be obtained and included in the loan file.
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### 8.15 SUBORDINATE FINANCING

New and existing junior liens secured by the subject property and subordinating to an Acra first mortgage is allowed provided the following is met:

- The combined loan-to-value of the first and subordinating junior lien(s) may not exceed program thresholds.
- The junior lien(s) may be a private party seller second from the original purchase of the property, or an institutional lender.
- The existing junior lien(s) must have a remaining term of at least five (5) years.
- The terms of the note must provide for regular monthly payments of at least interest only with no provisions for future advances, or wrap-around terms.
- The principal and / or interest payment must be added to the monthly debt to income ratio.
- A copy of the executed note on the subordinating junior lien(s) must be obtained and included in the loan file. The note must be reviewed and approved by the underwriter prior to ordering loan documents.
- A certified copy of the fully executed subordination agreement must be reviewed and approved by the underwriter prior to funding the loan. The subordination agreement must record concurrently with Acra's first mortgage / deed of trust.

### 8.16 HOME EQUITY LINE OF CREDIT

When Secondary or Subordinate financing is a Home Equity Line of Credit the following additional criteria must be met:

- The property being financed should be owner occupied or second / vacation home.
- The calculation of the CLTV should include the total usable Home Equity Line of Credit.
- A copy of the Note for the Home Equity Line of Credit must be obtained to determine the payment based on the interest rate in effect for the Line of Credit Loan on the date that the Loan application is underwritten.
- An executed estoppel agreement is required from the existing line of credit holder. The estoppel agreement must freeze the credit line at the current maximum limit.

### 8.17 STOCKS, BONDS, AND OTHER SECURITIES

The file must contain proof that the borrower owns the stocks, bonds, or other securities and must document what they are worth. Proof is required that these securities have been sold if funds are needed to close. Acceptable evidence of ownership and value include:

- A statement from the brokerage company indicating ownership of the security and verifying the sale.
- Verification from the bank that the security has been sold or redeemed. Copies of the sale documents proving ownership and that the transaction is complete.
- To verify government bond income, a photocopy of the bond, copy of the redemption table to verify the value, and proof of liquidation is required. If funds are used to satisfy the borrower's minimum down payment required for the loan-to-value, the documentation must clearly show the borrower owned the source of the funds for at least 90 days.

### 8.18 TAX REFUNDS

Tax refund checks from either the Internal Revenue Service or State Revenue are acceptable sources of funds. Such funds must be documented as follows:

- Copy of the refund check(s) or a copy of the borrower's income tax returns showing the amount of the refund.
- Proof of an increase in deposit accounts supported by a copy of the borrower's income tax returns.



### 8.19 BUSINESS DEPOSIT ACCOUNTS

Borrower must own the business contributing the closing funds. Verification of business deposit accounts such as checking, savings, certificate of deposit, and money market accounts must include the following documentation:

- Copy of the borrower's two (2) most recent bank statement(s) for the account(s) in which the funds for the down payment are to be withdrawn; AND
- Hand written Letter of Explanation executed by the majority of the business' ownership describing the potential impact on the business if business funds are used for closing.

### 8.20 UNACCEPTABLE ASSETS / FUNDS

Unacceptable sources of funds include, but are not limited to:

- Credit card advances & any unsecured loan;
- Sweat Equity – a contribution to the construction or rehabilitation of a property in the form of labor or services instead of cash; or
- Trade Equity (excluding 1031 Exchange).

### 8.21 CONCURRENT REFINANCE TO PURCHASE TRANSACTIONS

Funds derived from an Acra refinance transaction that are being utilized as Funds to Close in a concurrent Acra purchase transaction are acceptable. Where both transactions will be conducted as Owner Occupied for disclosure purposes, a limit of 75% LTV / CLTV for both transactions is required.

### 8.22 RESERVE FUNDS

When required under a specific program, Acra may require documentation of a Borrower's capital as calculated to be in reserve after the close of the subject transaction.

Reserves are calculated against the monthly payment for the new Acra loan as of the first scheduled monthly payment.

Documentation of Reserve amounts should show the dollar amount at or above the required amount of reserves to be in the Applicant's accounts for a period of at least 60 days. Reserves from a departure property (or an owned asset) can be converted to liquid assets and do not need to be seasoned, so long as that asset was owned for greater than 60-days.

Cash-in-hand from a cash out refinance may be used toward reserves.

Unacceptable sources of funds include, but are not limited to:

- Credit card advances & any unsecured loan;
- Non-liquid funds, real-estate, or other assets;
- Cyber-currency(ies);
- Funds held in a business or trust name\*; and / or
- Gift Funds.

\*Funds held in a business or trust name are acceptable if the borrower(s) represent 100% ownership or are the exclusive trustee(s) / beneficiary(ies).

Please note that the Senior Management of Acra Lending maintains discretion for interpretation or definition of any item or situation that is not explicitly addressed in the guidelines.

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## **SECTION 9 – PROPERTY ELIGIBILITY**

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Acra Lending funds loans on a variety of property types in urban, suburban, or rural areas. Acra does not reject loans solely on the basis of age of the property, square footage, number of bedrooms, the location of the property, or the ethnic composition of a neighborhood.

### **9.1 ELIGIBLE PROPERTY TYPES**

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Eligible property types include properties as listed below that are situated on fee simple or real property with a ground lease (refer to Ground Lease requirements later in this section):

- Single Family Residences (attached / detached) including manufactured or modular homes;
- Condominiums (attached / detached) (low-rise / high-rise);
- Non-Warrantable Condos;
- Condotels;
- PUDtels;
- Townhomes (attached / detached);
- Planned Unit Developments – PUD (attached / detached); and
- Two-to-four (2-4) units.

These property types are ineligible in the Non-Prime program, but may be eligible under other Acra programs:

- Multi-Family (5 - 100 units);
  - Residential Use with Commercial Influence (Mixed Use);
  - Hotel / Motel / Rooming House;
  - Strip Mall;
  - Single-tenant Retail / Office;
  - Multi-tenant Retail / Office;
  - Hospitality;
  - Storage Facility;
  - School / Daycare; or
  - Properties listed for sale within the last six (6) months (refinance transactions).
-

### 9.2 INELIGIBLE PROPERTY TYPES

Certain property types are not considered to be acceptable collateral in any Acra programs:

- Agricultural use properties (crops, lumber, animals of any kind);
  - Cooperatives, sometimes referred to as an "Owners Proprietary Lease";
  - Earth berm Homes, Geodesic Domes;
  - Economic life of property is less than term of the loan;
  - Highly Unique Properties;
  - Illegal use of property – Zoning or building code violations;
  - Industrial Properties;
  - Leaseholds ;
  - Log Cabins;
  - Mobile Homes;
  - Mobile Home Parks or Converted Mobile Home Parks;
  - Manufactured Homes of a "single-wide" variety or constructed prior to 1976;
  - Own-Your-Own Apartments;
  - Properties in less than average condition;
  - Properties with no permanent heat source (except for areas where not required by code);
  - Properties that are not suitable for year-round use;
  - Properties zoned: industrial, manufacturing, exclusive farm use (EFU), forest commercial (FC);
  - Properties located on a Native American (formerly "Indian") Reservation;
  - Properties with interim use or properties reported to have a different highest and best use than the present use;
  - Properties in areas built up "under 25%";
  - Properties with deferred maintenance, deterioration, or structural damage that may seriously affect the structural integrity or pose a health and safety hazard to the occupant(s). Properties that are condemned or deemed uninhabitable by local municipalities. Properties displaying significant disrepair that it is prohibitive and not feasible to restore the structure to a habitable condition;
  - Refinance of vacant properties;
  - Timeshares;
  - Vacant land; and / or
  - Working Farms or Ranches (crops, cattle, horse, dairy, etcetera).
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### 9.3 PROPERTY MARKETABILITY FACTORS

Properties that have unique physical features are physically deteriorated or exposed to value and marketability issues may result in a reduction of value or declination of the loan.

Examples of marketability factors that could adversely affect the acceptability of the property are:

- Atypical physical characteristics and construction type / quality
  - Economic changes in market conditions
  - Environmental risk hazards (toxic)
  - External or functional obsolescence
  - Geological conditions – Properties currently or potentially suffering from significant site distress or erosion due to local geological conditions
  - Inadequate ingress and egress
  - Public utilities or services – Properties that lack typical city or county services and necessary utilities, including water electricity, heating and sewage disposal
  - Properties in remote locations
  - Unique properties that do not conform to the local market and require longer marketing times such as over-improved or super adequacy properties
  - Zoning changes – Identified recent or pending zoning changes which would have a short-term negative or de-stabilizing impact on residential market values
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## **SECTION 10 – PROPERTY DESCRIPTIONS**

### **10.1 CONDOMINIUM OR CONDOTEL**

A condominium project is one in which individual owners hold title to units in the project along with an undivided interest in the real estate that is designated as the common area for the project. The units in the project must be owned in fee simple and the unit owners must have the sole ownership interest in and rights to the use of, the project's facilities, common elements, and limited common elements.

A condotel project is located in a resort area with a rental management company that provides occupancy on an interim basis (daily, weekly, etcetera). Condotel projects located in bonafide resort areas are exempt from the occupancy requirements but require Senior Management approval for financing. Other locations (i.e.: near a military base) would be considered on a case-by-case basis.

Due to the concentration of loans that have been financed by Acra, for all loans located in The Grove Resort and Waterpark condominium complex in Orlando, Florida, Acra will apply a rate adjustment and limit available LTV / CLTV for any loan financed to 60%.

To qualify as an acceptable condominium unit, the condominium project must be common for the area and demonstrate good marketability.

Acra will not lend on more than 20% of the units in a condominium project.

Appraisal must clearly indicate that no personal property (artwork, furnishings, etcetera) is included in the valuation. If not, Acra reserves the right to reduce the value by a factor of 15%.

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### 10.2 CONDOMINIUM ELIGIBILITY REQUIREMENTS

All Condominium Projects must meet the following criteria:

- The maximum number of total units in the project owned by the same entity or individual may not exceed 30%; and
- All common areas and facilities must be complete.

#### A. Condominium – Established Projects

- 90% of the total units in the project must be sold and conveyed to the unit owners.
- 50% of the total units in the project must be owner occupied.
- All phases are complete.
- HOA must be conveyed to the unit owners – no developer or builder-controlled projects allowed.
- All comparable sales may be from within the subject's project if the project is established and consists of 100 or more units. Recent sales of model match units, if available, must be utilized in the appraisal report.

#### B. Condominium – Newer Projects

- 60% of the total units in the project or subject's phase must be sold and conveyed to the unit owners AND at least 60% of the units must be owner occupied.
- Project may be subject to additional phasing.
- HOA should be in control – project under Developer or Builder control will be considered on a case-by-case basis only.
- Comparable sales must include at a minimum:
  - One (1) from inside the project; and
  - Two (2) from outside the project.
- FNMA PERS approval or copy of the HOA budget

#### C. Condominium – Smaller Projects (less than 20 units)

- 100% of the total units in the project must be sold and conveyed to the unit owners.
- 50% of the total units in the project must be owner occupied.
- All phases are complete.
- HOA is conveyed to the unit owners – project may not be under developer or builder control.
- Smaller projects that are common for the area are acceptable with like comparables from the subject's market area.
- Smaller projects with no HOA will be considered case-by-case basis.
- Projects consisting of three (3) units or less require proof of an arbitration agreement in the Articles and By-laws.
- Comparable sales must include at a minimum:
  - One (1) from inside the project; and
  - Two (2) from outside the project.

(Continued)

**10.2  
CONDOMINIUM  
ELIGIBILITY  
REQUIREMENTS  
(CONTINUED)**

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- D. Condominium Conversions
- 100% of the total units in the project must be sold and conveyed to the unit owners.
  - 50% of the total units in the project must be owner occupied.
  - All phases must be complete.
  - HOA must be conveyed to the unit owners – no developer or builder-controlled projects allowed.
  - Converted condominium projects must be common for the area and demonstrate market acceptance as evidenced by comparable sales of other apartment conversions in the area.
- E. Condominium – High Rise Condominium Projects (Five (5) stories or greater)
- High-rise condominium projects are considered on a case-by-case basis. They must be common for the area as evidence by comparable sales. Comparable sales must be from other high-rise condominium projects in close proximity to the subject and the sales must be similar in design, appeal, market area, etcetera.
- The project may have commercial uses on the first floor only.
  - Elevator access to each floor is required.
  - Comparable sales must include at a minimum:
    - One (1) from inside the project tower; and
    - One (1) from outside the project tower.
- F. Condominium – Documentation Requirements
1. HOA Information Letter – verifying the following:
    - Condominium project is not currently involved in any litigation;
      - Generally, a condominium project that is currently in litigation is not eligible for financing; however, Acra will consider each case on an individual basis;
    - Total number of units in the project;
    - Total number of phases that are not complete;
    - Percent of the units sold and conveyed to the unit owners; and
    - Percent of the units owner occupied.
  2. Percent of units owned by any one entity or individual and if and when the project was conveyed to the unit owners (i.e.: HOA in control).
  3. Hazard insurance in the name of the HOA showing 100% guaranteed replacement coverage.
  4. General liability in the name of the HOA for a minimum amount of coverage equal to one million dollars (\$1,000,000) per occurrence.
  5. Flood insurance & boiler insurance in the name of the HOA (if applicable).
  6. Monthly HOA fee for subject.
- \* Non-Warrantable Condominiums are allowable with Senior Management Approval when the following condition is met:
- No more than 25% of the units are owned by a single entity.

Note: Acra will not encourage or engage in any activity that violates USPAP regulations. Guidelines for the locations of comparable sales / rentals are Acra preferences and are not requirements where Appraiser otherwise notes report is utilizing the most relevant comparables available.

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### **10.3 GROUND LEASE PROPERTIES**

A ground lease (also known as a Leasehold) is a condition whereby the persons listed on the title owns the dwelling, but leases the land on which the dwelling exists. Unless the leasehold fee interest is being purchased through the subject transaction, Acra does not lend on these properties.

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### **10.4 LOG STYLE HOMES**

Log style homes (excluding log cabins) are acceptable collateral provided the following is met:

- Minimum of two (2) comparable sales that are log style homes with similar property characteristics as the subject property;
- The two comparable sales must be recent sales (one (1) year or less) and must be located in close proximity to the subject property; and
- The Appraiser must comment if log style homes are typical for the area.

As a non-exhaustive or comprehensive list, but for differentiation, log cabins, which are not acceptable, may include the presence of:

- Untreated or non-milled logs (i.e.: fully round);
  - Caulking or mortar between joints;
  - Visible electrical or plumbing conduits.
- 

### **10.5 MODULAR HOMES**

A modular home is a pre-fabricated dwelling, which is principally factory built off-site. The dwelling is delivered to the site in sections or modules. Upon delivery to the site, the home is assembled and attached to a permanent foundation and assumes the appearance and characteristics of a site-built residence. Portions of the dwelling may be built on-site.

If the subject is modular construction, the comparable sales must include at least one (1) resale of a modular constructed home. For lending purposes, a modular home is treated as a single-family residence including loan-to-value limits. An ALTA 7 Endorsement is required from Title.

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### **10.6 MANUFACTURED HOMES**

A manufactured home is a pre-fabricated dwelling, factory built and transported to the site in sections. A manufactured home differs in from a modular home in that it has a steel beam frame, to which transportation wheels have been attached, as well as the hitch with which to tow it. A manufactured home will be eligible as long it has been affixed to a permanent foundation, all utilities are connected, and the tow bar and axles have been removed. This will be evidenced in the appraisal report (specifically a Form 1004C) and must also be insured as an SFR on the title report inclusive of having an ALTA 7 Endorsement. Manufactured Home Title Elimination must be filed and on Title if no 116 Endorsement is present reflecting the subject as an SFR.

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### 10.7 MIXED USE PROPERTIES

A mixed-use property as defined by Acra is a one-to-four (1-4) unit residential property with a home-based business. The following requirements must be met:

1. The borrower must be both the owner and the operator of the business;
2. The business cannot interfere or conflict with the residential use of the property;
3. The property cannot have been altered in any way that would indicate any use, design, or appeal other than residential;
4. There must be no hazardous material being used or stored at the subject property; and
5. The market value of the property must be solely a function of its residential characteristics, rather than of the business use.

An Adult Care Facility / Assisted Living Facility can be considered on a case-by-case basis if it is a residential property where the property has not been modified or otherwise detracting from the marketability of the property from its residential use consistent with #2 above. Acra Management will consider the manner of qualification and other compensating factors in pricing, but will not lend at greater than 75% / 70% LTV / CLTV respectively for purchase or refinance transactions. See *Section VI: Rental Income Requirements – Debt Service Cover Ratio* for details on calculating the qualifying income.

### 10.8 MULTI-FAMILY RESIDENCES

A two-to-four (2-4) unit or a five-plus (5+) multi-family dwelling is designed for apartment use by multiple families. The structure(s) is attached or detached.

### 10.9 PLANNED UNIT DEVELOPMENTS (PUD's)

A Planned Unit Development (PUD) is a project or subdivision that consists of common property and improvements that are owned and maintained by a Home Owners Association for the benefit and use of the individual PUD units. The common property enhances the enjoyment of the premises and the value of the property that secures a PUD unit mortgage. Acra will purchase single family properties attached or detached that are located in a PUD project, provided the following criteria is met:

- The project must be in an established market;
- Document a copy of the Master Policy;
- Detached PUD's do not require any additional documentation for the HOA, phase or project completion; and
- If a refinance transaction, provide a recent HOA statement.

A "Senior Community" with a minimum age restriction for occupancy (also known as a 55+ Community) is acceptable and needs to document comparable sales within the subdivision.

### 10.10 PUD – MANUFACTURED HOME DEVELOPMENTS

Acra will not lend on manufactured homes located in a PUD.

**10.11  
Row Housing**

A row house property is a site-built dwelling for one family only and built on land owned by the borrower. The dwelling is an attached housing unit that is not classified as a condominium or PUD and does not share any common areas or pay HOA fees.

- Adjoining row homes typically fill an entire block and were primarily built in the 1930s and 1940s.
- Row homes are typically located in communities of row homes with similar construction type, appearance, and value.
- Row homes are typically two (2) or more stories with a front and rear entrance only. The rear entrance is accessible from an alley at the rear of the property, which runs the length of the city block.
- The dwelling may include an attached carport typically accessible from the alley.

**10.12  
RURAL  
PROPERTIES**

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1. Acra originates properties that are classified as "rural" and built up "under 25%" under a case-by-case basis.
  2. Maximum loan amount and LTV / CLTV determined by credit grade. See Rate Matrix.
  3. Properties with a marketing time in excess of six (6) months may be subject to an additional LTV reduction.

A property may be classified as rural or with rural influence as stated by the appraiser or if it is located:

- On a gravel road and does not have adequate utilities available in service;
- On more than five (5) acres of land;
- In a neighborhood under 25 percent "built-up";
- Appraiser classifies the property as rural; or
- In a remote or isolated area.

NOTE: Generally, comparable sales used by the appraiser that exceed a distance of five (5) miles or more from the subject property is also a good indicator the property may be located in a rural area.

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### **10.13 SINGLE FAMILY RESIDENCE**

A single-family residence is a site-built dwelling designed for one (1) family use only, normally detached and generally built on land owned by the homeowner.

The dwelling may share one (1) wall ("Party Wall") with a residence owned by another party. Therefore, the units are either detached or attached in groupings of two (2) ("Twin Home"). The dwelling may include an attached or detached garage. Properties that share one (1) wall require a party wall agreement. The party wall agreement should be recorded and reflected on the preliminary title report / title commitment.

#### Single Family Residence New Tract / Development

For purchase transactions of new construction, the sales contract must indicate the base price and detail any and all upgrades with the cost breakdown. The allowable percentage for upgrades above the standard package must be supportable within the local market.

The appraisal must be made either "as is" if complete or "subject to" which would require a Form 442 and photos upon completion.

If the improvements are not completed at the time of the appraisal an estimate of percentage complete should be noted within the report. Interior photos are recommended. Interior photos are required showing completed work, whether on the initial or 442 report.

### **10.14 TOWNHOMES**

A town home is a style of construction designed for one (1) family use only and can be built as a PUD, Condo, or Site Built home (no common area). The unit may be detached or attached in groupings of two (2) or more.

### **10.15 UNIQUE PROPERTIES**

#### Unique Property Features

A dwelling with an unusual layout, peculiar floor plan or inadequate equipment or amenities usually has limited market appeal and should not be considered for maximum financing. The appraiser should comment on any functional obsolescence, negative impact on the marketability, or buyer resistance as a result of the unique property features.

#### Unique Properties

Acra originates unique properties on a case-by-case basis only with the following stipulations:

1. Appraisal Field Review is required, regardless of LTV;
2. Unique properties must be compared with other unique properties in the area;
3. The property must be in average or better condition;
4. The property must have adequate heating and water sources;
5. The appraised value must be based on a marketing time of no more than six (6) months; and
6. The property must meet all other Acra property requirements and may be subject to an LTV reduction or declination.

### **10.16 VACANT PROPERTIES**

Acra does not originate loans where the subject property(s) are vacant on refinances (cash out or rate & term).

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**10.17**  
**SANDWICH LEASE**

Generally found in Hawaii, "Sandwich Leases" are used to describe a scenario where a HOA is leasing real property complex and in turn are releasing the individual units to homeowners. Not to be confused with renting for occupancy, but instead the HOA is generally owning as Fee Simple, whereas the homeowner is generally on a Leasehold for the real property.

Acra does not lend on Leasehold property; however, may lend against properties in which the leasehold is concurrently being purchased from the HOA as a condominium unit is being purchased from a homeowner – whereas at the conclusion of the transaction Acra's Borrower would own the real property in a Fee Simple manner.

Mechanically, to avoid confusion with the two transactions timing and issuance of a perfected Title Company, generally these two purchases should be handled by the same Title Company / Closing Escrow.

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## **SECTION 11 – GENERAL PROPERTY REQUIREMENTS**

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The property must conform to the neighborhood and must be in average or better condition. The mortgaged property should conform to all applicable zoning regulations and be the highest and best use of the land.

### **11.1 BUILDING PERMITS**

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Acceptable building permits will be required on all conversions or additions to living areas. Square footage, which can be verified through public records, is acceptable and will not require further documentation. Any unpermitted area must be completed in a workman like manner. The appraisal must include a cost to cure, and the unpermitted area should not be included in the Gross Living Area (GLA) calculation.

In areas where permits are not required, the appraiser must disclose when the work was originally completed and comment if the work was done in a workmanlike manner. The appraiser must also comment on the type of conversion or addition and if the improvements are functional and conforming to the original structure.

### **11.2 LIVING AREA REQUIREMENTS**

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Acra does not impose minimum square footage requirements on the subject property provided the following requirements are met:

1. The property must have sufficient square footage and room dimensions to be marketable and acceptable to typical borrowers in that market area;
2. The property should include a kitchen, bedroom, and a bathroom with minimum facilities (i.e.: sink, toilet, and bathtub or shower);
3. A property consisting of a combined living room and bedroom (i.e.: studio / efficiency unit) will be considered on a case-by-case basis. The property must be marketable, common for the area and the appraisal report must include recent sales of bachelor pads / efficiency units; and
4. Current sales with similar square footage and number of bedrooms / bathrooms must be utilized to support the value. If the subject property consists of one (1) bedroom, the comparable sales must include recent sales of one (1) bedroom properties.

Smaller sized properties (i.e.: square footage and / or bedroom count) that cannot be supported with recent sales of similar sized properties located in the subject's market area require an internal appraisal review).

### **11.3 OUTBUILDINGS**

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All outbuildings (i.e.: barns, stables, arenas, workshops, guesthouses, and etcetera) must be described in detail on the appraisal report. Value for outbuildings may be considered if:

- Legal use and affixed to a permanent foundation;
- Not being used for commercial or business purposes that would conflict with the residential use of the property; and
- Typical for the area as evidenced by comparable sales with value given for the same or similar type of outbuildings.

If outbuildings are not typical for the area and supported by comparable sales with similar outbuildings, no value will be given.

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**11.4  
PROPERTY  
INSPECTIONS**

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Acra will allow property inspections to be waived on a case-by-case basis if the LTV is calculated at 70% or less and all parties to the sale execute an addendum to the Purchase Contract. All individuals performing inspections must be appropriately licensed within their field of expertise. Refer to Property Inspection Requirements in General Underwriting.

**11.5  
PROPERTIES  
LISTED FOR SALE**

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If the subject property has been listed for sale in the last six (6) months from the date of funding by Acra, the transaction is ineligible.

Period for measurement is from the last day listed to the date of application submission.

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## **SECTION 12 – APPRAISER REQUIREMENTS**

### **12.1 APPRAISER QUALIFICATION**

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The appraiser or review appraiser must be an appropriately licensed or certified for the state in which the property is located and comply with the competency rules of USPAP. Acra reserves the right to reject an appraisal from any given appraiser or to request a second appraisal.

### **12.2 APPRAISER LICENSING / CERTIFICATION REQUIREMENTS**

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Acra requires appraisal reports to be completed by appraisers that have appropriate licensing for the scope of practice performed by the appraiser, who's license must be in good standing.

Appraisal reports signed by a trainee appraiser must be co-signed by a supervisor appraiser either a licensed or certified residential appraiser (the supervisory appraiser does not have to inspect the property based on USPAP guidelines). Lender should verify the status of the license with the state or national registry of appraisers.

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## **SECTION 13 – APPRAISAL REVIEW REQUIREMENTS**

**13.1****APPRAISAL  
REVIEWS**

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The intent of the appraisal review is to form an accurate opinion regarding the facts and value of the appraisal that was submitted for lending purposes.

**13.2****BROKER PRICE  
OPINION (BPO)**

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An interior or exterior BPO inspection is generally not required. However, Acra reserves the right to require a BPO on a case-by-case basis.

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## **SECTION 14 – APPRAISAL REPORTS**

### **14.1 GENERAL REQUIREMENTS**

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Acra requires a complete original summary appraisal report on each property. Acra does not accept limited appraisal reports or evaluations. Each appraisal must meet FNMA appraisal standards and conform to the Uniform Standards of Professional Appraisal Practice (USPAP) adopted by the Appraisal Standards Board of the Appraisal Foundation. The appraisal must be in computerized and include an original or digital signature from the licensed appraiser. The appraiser must explain any inconsistencies or discrepancies noted in the appraisal report. The appraisal must build to a logical conclusion of value.

### **14.2 SECOND APPRAISALS**

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A second full appraisal is required when:

- The loan amount is greater than \$1.5 Million; or
- To prevent “flipping”, when the subject loan is a purchase transaction subject to Section 35 (primary residence) where the seller of the property acquired the property:
  - 90 days or fewer prior to the date of the resale agreement and the resale price exceeds the seller's original purchase price by more than 10%; or
  - 91-180 days prior to the date of the resale agreement and the resale price exceeds the seller's original purchase price by more than 20%.

NOTE: 90-days and 180-day figures are calculated by counting the day after the date on which the seller acquired the property, up to and including the date of the consumer's agreement to acquire the property that secures the transaction. For example, assume that the creditor determines that date of the consumer's acquisition agreement is October 15, 2021, and that the seller acquired the property on April 17, 2021. The first day to be counted in the 180-day calculation would be April 18, 2021, and the last day would be October 15, 2021. In this case, the number of days from April 17 would be 181, so an additional appraisal is not required.

The additional appraisal cannot be charged to the borrower and must include:

1. A comparison of the previous purchase price with the current purchase price;
2. Changes in market conditions; and
3. Any improvements made to the property since its previous purchase.

(Continued)

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**14.2  
SECOND  
APPRAISALS  
(CONTINUED)**

The additional appraisal required under "flipping" of this subsection shall not apply to consumer's acquisition of property:

- a) From a local, state or federal government agency;
- b) From a person who acquired title to the property through foreclosure, deed-in-lieu of foreclosure, or other similar judicial or non-judicial procedure as a result of the person's exercise of rights as the holder of a defaulted mortgage loan;
- c) From a non-profit entity as part of a local, state, or federal government program under which the non-profit entity is permitted to acquire title to single-family properties for resale from a seller who acquired title to the property through the process of foreclosure, deed-in-lieu of foreclosure, or other similar judicial or non-judicial procedure;
- d) From a person who acquired title to the property by inheritance or pursuant to a court order of dissolution of marriage, civil union, or domestic partnership, or of partition of joint or marital assets to which the seller was a party;
- e) From an employer or relocation agency in connection with the relocation of an employee;
- f) From a service member, as defined in 50 U.S.C. Appx 511(1), who received a deployment or permanent change of station order after the service member purchased the property;
- g) Located in an area designated by the President as a federal disaster area, if and for as long as the Federal financial institutions regulatory agencies, as defined in 12 U.S.C. 3350(6), waive the requirements in Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, as amended (12 U.S.C. 3331 et seq.), and any implementing regulations in that area; or
- h) Located in a rural county, as defined in 12 CFR 1026.35(b)(2)(iv)(A).

Additionally, two (2) full appraisals may be required at the discretion of Acra in circumstances where the original appraisal does not meet the standards imposed by Acra in its sole discretion.

If the second appraisal is required, it must be completed by a different appraiser than who performed the original appraisal.

**14.3  
ENVIRONMENTAL  
HAZARDS**

Any known environmental hazard in or on the subject property, or in the vicinity of the subject property must be disclosed to the appraiser. The appraiser must consider any influence the hazard may have on the property's value and marketability. These hazards may be found on the sales contract / offer to purchase, or communicated by the seller of the property, the buyer, the real estate broker, or local governments. Upon discovery of any hazard, the appraiser must review for any suggested corrective action.

Radon Certification

- Must be completed by a licensed or certified inspector
- Must indicate levels within acceptable tolerance

Toxic Waste

- Properties within one (1) mile of a Federal Super Fund site will require a Phase I Report. Based on the results, further analysis or reports may be required.
- Properties that abut or are adjacent to a known toxic site will require full disclosure and may require further analysis or a Phase I report.

### 14.4 APPRAISAL REPORT FORMS

Appraisals must be completed on the most current version of the following forms, including all appropriate schedules, addenda, and documentation indicated below:

PROPERTY TYPE	FNMA FORM
<b>SINGLE FAMILY RESIDENCE</b>	URAR – Uniform Residential Appraisal Report (FNMA Form 1004 dated 09/2011)
<b>PLANNED UNIT DEVELOPMENT (PUD)</b>	URAR – Uniform Residential Appraisal Report (FNMA Form 1004 dated 09/2011)
<b>CONDOMINIUM UNITS</b>	Individual Condominium Unit Appraisal Report (FNMA Form 1073 dated 09/2011)
<b>SITE CONDOMINIUMS (DETACHED INDIVIDUAL CONDO UNIT)</b>	Individual Condominium Unit Appraisal Report (FNMA Form 1073 dated 09/2011)
<b>MANUFACTURED HOMES</b>	Manufactured Home Appraisal Report (FNMA Form 1004C dated 03/2005)
<b>2-4 FAMILY UNITS</b>	Small Residential Income Appraisal Report (FNMA Form 1025 dated 03/2005)
<b>5-15 FAMILY UNITS</b>	Small Residential Income Appraisal Report (FHLMC Form 71B dated 08/1977)

### 14.5 AGE OF APPRAISAL REPORT

If the appraisal date is 120 days or more at funding, the original appraiser must provide an Appraisal Update with photos.

If the appraisal date is 180 days or more as of the date of funding, a full new appraisal report completed by a licensed or certified appraiser is required.

### 14.6 APPRAISAL UPDATES (RE- CERTIFICATION OF VALUE)

If an appraisal update is required, the following conditions must be met:

- The real estate has undergone no significant change since the original appraisal;
- The time period between the effective date of the original appraisal and the effective date of the appraisal is less than six (6) months; and
- The appraiser must address any changes in the market conditions and the status of the subject since the original appraisal and analyze the effect of these changes in arriving at the current value estimate for the subject.

The appraiser must drive by the subject property and provide a 2055 drive by appraisal and documentation with the following:

- New photographs of the subject and comparable sales; and
- Location map.

If the original appraisal cannot be supported by an appraisal update, a new appraisal must be obtained.

### 14.7 APPRAISAL REPORT DOCUMENTATION

Each appraisal report must include as attachments the exhibits listed below:

<b>14.8 LOCATION MAP</b>	The location map must locate the subject property and all comparable properties (including sale, rental and listing comparables, as applicable). The map should also disclose the street names of the subject property and comparable sales.
<b>14.9 PLAT MAP</b>	In states where available, a plat map (a survey from the title commitment if applicable) showing the location of the subject property with the dimensions of the lot size should be obtained.
<b>14.10 FLOOR PLAN / BUILDING SKETCH</b>	<p>Each Appraisal shall include:</p> <ul style="list-style-type: none"> <li>• A sketch showing the location of all rooms and exterior doors; and</li> <li>• Location of interior walls and doors is required if a condition of functional obsolescence is noted.</li> </ul>
<b>14.11 EXTERIOR SKETCH</b>	The exterior sketch of the improvements must include the dimensions and calculations that the appraiser used to determine the size of the subject property. An exterior building sketch is used for detached one-unit properties and end PUD units; an interior perimeter sketch is acceptable for condominium units and interior PUD units. For two-to-four (2-4) unit properties, the sketch must include each unit's layout and entries, indicate the square feet of living area per unit, and the gross building area.
<b>14.12 RENT SCHEDULES (FNMA FORM 1007)</b>	<p>Acra requires the Single-Family Comparable Rent Schedule (FNMA Form 1007) for single family properties on (i) all DSCR qualifying files, (ii) lease-option purchase transactions where the down payment as required in §3.45 is generated from excess monthly rent contributions, or (iii) when proposed rental income is being used to qualify.</p> <p>Single family investment properties with excessive monthly rent payments reflected on the Rental / Lease Agreement will require documentation supporting that the monthly rent is typical for the area. Acceptable documentation may include; classified ads from local newspapers, Single Family Comparable Rent Schedule (FNMA Form 1007) completed by the appraiser or a market rent survey completed by a local real estate company or rental management company familiar with the market rents in the area.</p>
<b>14.13 RESERVED</b>	
<b>14.14 ADDENDA</b>	The appraiser may determine that the appraisal report must be supplemented by addenda. All addenda must be attached to the appraisal report and incorporated into the report by reference. The appraiser must comment on all forms of obsolescence and specify causes. If repairs are needed, the appraiser must list and estimate the cost to repair.

**14.15  
STATEMENT OF  
LIMITING  
CONDITIONS –  
APPRAISAL  
CERTIFICATION  
(FNMA  
FORM 1004B OR  
FHLMC 439)**

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- Each form must have an original or digital signature.
  - Any additions or deletions made to the Statement of Limiting Conditions Appraisal Certification must be referenced in the “reconciliation” section of the appraisal report.

**14.16  
SATISFACTORY  
COMPLETION  
CERTIFICATE  
(FNMA  
FORM 442)**

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For appraisal reports made subject to repairs, alterations, or conditions, or subject to completion in accordance with plans and specifications. A satisfactory completion certificate with photographs must be obtained and included in the loan file. The certification must:

- Be made after completion of the repairs, improvements, alterations, conditions, or construction;
- Clearly state that all conditions or requirements set forth in the original appraisal report of the mortgaged premises have been fulfilled; and
- Be prepared and signed by the original appraiser, if available, or by another qualified approved appraiser.

Alternately, Acra may accept a signed LOE, receipt for parts (if applicable), and photos from the borrower (refi) or seller / realtor (purchase) 442s for missing Smoke / CO2 detectors or double-straps on water heaters.

**14.17  
ENERGY  
ADDENDUM  
(ENERGY-  
EFFICIENT  
PROPERTY)**

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The following may be used to identify, rate and evaluate the subject property's energy efficient features:

- Evidence of compliance with the Council of American Building Officials (CABO) 1992 Model Energy Code (MEC);
  - Form 70A, Energy Addendum (Residential Appraisal Report); or
  - A report from an established Home Energy Rating System (HERS) sponsored by a local utility, home builder association, or a state or local government.
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### 14.18 PHOTOGRAPHS

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#### Subject Property Photographs

One set of clear descriptive color photographs of the subject property is required. The photographs must be originals (produced by photography or electronic imaging), must be appropriately identified and must clearly show the completed improvements. The photographs must include:

- A front view of the property;
- A street scene identifying the location of the property and showing neighboring improvements;
- A rear view of the property;
- The appraiser must include additional photographs, if necessary, to show clearly the improvements, amenities, or external influences that have a material impact on value or marketability; and
- Interior photos are required on all properties to generally depict the living areas, kitchen, and bathrooms.

#### Comparable Sales Photographs

One set of clear color digital photographs of the front view on each of the three (3) closed comparable sales is required. (The property addresses must be indicated.)

Acra does not require photographs of Carbon-Monoxide (CO) / Smoke detectors or water heater straps as long as the Appraiser asserts their presence in the report commentary.

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### SECTION 15 – SUBJECT PROPERTY

	<p>The subject property section of the appraisal report must include the following:</p> <ul style="list-style-type: none"> <li>• Identify and describe the location of the subject property. The appraisal must identify the subject property by its complete property address and legal description. When the legal description is lengthy, the appraiser may attach the full description as an addendum to the appraisal report, or may provide the subject's tax ID parcel number;</li> <li>• Provide information about property taxes and special assessments;</li> <li>• Indicate the occupancy status of the property;</li> <li>• Describe the property rights appraised;</li> <li>• Summarize financing data and sales concessions; and</li> <li>• Identify the borrower, the current owner, and the appraiser.</li> </ul>
<b>15.1</b> <b>CLIENT / LENDER</b>	<p>Appraisal reports reflecting the borrower or property seller as the client / lender are acceptable on a case-by-case and may require a full new appraisal report.</p>
<b>15.2</b> <b>NEIGHBORHOOD ANALYSIS</b>	<p>The neighborhood section of the appraisal report must contain an accurate description of the subject neighborhood and the factors that influence market value and marketability in the neighborhood. The actual neighborhood area being considered should be clearly defined using street names and other recognizable boundaries. The sales price of comparable properties in the identified area should reflect positive and negative influences in the neighborhood. The analysis should consider the effect of social, economic, governmental and environmental forces on the property values. The information presented in the neighborhood description must be consistent with, and supported by, the conclusions reached by the appraiser throughout the appraisal report.</p>
<b>15.3</b> <b>GROWTH RATE (INCREASING / DECLINING)</b>	<p>When property values are declining an internal appraisal review may be required and the loan may require a loan-to-value reduction.</p>
<b>15.4</b> <b>PRESENT LAND USE</b>	<p>The present land use, the predominant occupancy composition, and the likelihood that either will change must be analyzed to determine whether a neighborhood is undergoing transition. The appraiser must comment on any change in land use. (Properties with interim use or properties reported to have a different highest and best use than the present use are not eligible for financing.)</p>
<b>15.5</b> <b>PREDOMINANT VALUE</b>	<p>The relative percentages of developed land should be shown; underdeveloped land should be shown as vacant. Any unusual situations or types of land use should be mentioned in the comment section. The total types of land use must equal 100%</p>
<b>15.6</b> <b>DEMAND, SUPPLY, MARKETING TIME</b>	<p>When marketing time for a particular area is greater than six (6) months, the appraisal must contain comments on the reason for the extended marketing period and its effect on the value of the property.</p>

### 15.7

#### **NEIGHBORHOOD DESCRIPTION AND MARKET TRENDS**

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Any increase or decline in the market must be detailed. The marketing time of the subject must reflect the current trend for the area and the subject property. Marketing time of over six (6) months must be explained in detail to determine the effect on the marketability.

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## SECTION 16 – SITE

### 16.1 SITE VALUE

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The estimated site value must be included for all detached properties. If the appraiser's estimate of the site value is one that is not typical for a comparable residential property in the subject property's market area, the appraisal must include comments on how the variance affects the marketability of the subject property.

### 16.2 MULTIPLE PARCELS

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A property that consists of two or more parcels of land with one legal description reflected on the title policy is acceptable collateral. The appraised value must be based on all parcels of land. All existing parcels must be contiguous and encumbered by the subject loan. The appraisal should include comparable sales similar to the subject property. Additional parcels with no improvements must be valued as excess land only. The mortgage must include all parcels as collateral. The site size of all parcels may not exceed Acra's maximum requirements.

### 16.3 SITE AREA MAXIMUM ACREAGE

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Acra will purchase loans secured by properties that are located on lot sizes up to twenty-five (25) acres. The appraiser must provide a value for the entire site size of the property, regardless of the lot dimensions or number of acres.

- Comparable sales must support larger parcels as common and typical for the area.
- The comparable sales should be on similar sized lots from competing market areas in close proximity to the subject. In addition, the comparable sales should exhibit similar age, quality of construction, design, appeal, square footage, room count and utility, etcetera.

NOTE: If the subject property's site size is not supported with similar comparable sales, a loan-to-value reduction may be required.

### 16.4 SITE UTILITIES

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The minimum requirements for water sources, sewers, and electricity may include:

- Public water, private wells, shared wells with a recorded agreement, or common stock in a private water company with a recorded water stock certificate.
    - Cistern water is acceptable on a case-by-case basis. The appraiser must provide recent comparable sales of properties that use cistern water that are in close proximity to the subject property. An internal appraisal review is required.
  - Public sewer or private septic systems (cesspools).
    - Private septic systems (cesspools) must be typical for the area and supported by comparable sales with similar septic systems.
  - Public electricity only. Properties relying on solar systems or generators for electricity except as backup systems are not allowed.
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**16.5  
STREET  
SURFACES AND  
PRIVATE ROADS**

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Publicly maintained paved or all-weather dirt roads or a private road access is acceptable, if common for the area. A road maintenance agreement is required for private road access for properties not located in a PUD. Charges for maintenance of private roads are considered assessments and should be included in the debt-to-income calculation. If no Road Agreement is in place, provide a copy of the last road clearing / maintenance bill. If the subject is on an all-weather dirt road, similar comparable sales must be utilized to support marketability and value. The presence of sidewalks, curbs, gutters, streetlights and alleys depends on the local codes and regulations of the city or local municipality. If such improvements are required in the community, they must be present.

**Ingress and Egress**

A property that is land locked is not allowed and private road access must have easements of record allowing access to and from the subject property to a public street (i.e.: ingress and egress) and must be insurable by the title insurance company.

**16.6  
ZONING  
CLASSIFICATION**

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The appraisal report must indicate the specific zoning classification for the subject property and a general statement to describe what the zoning allows (e.g.: "R-1 single-family" vs. "residential", R-2 "two-family", "C1-commercial", etcetera). For areas in which there are no local zoning, the report should indicate so.

The appraisal report should contain a statement indicating whether the site's improvements represent a legal use of land. Loans secured by property with improvements that are not legally permissible are not acceptable.

A one-to-four (1-4) unit property that represents a legal, but non-conforming use of the land must include the appraiser's analysis regarding any adverse effect(s) that the non-conforming use has on the property's value and marketability and comment on the highest and best use.

Properties with interim use or a highest and best other than residential are not acceptable. A 100% rebuild letter from the local municipality is required. For a unit located in a condominium or attached PUD project the rebuild letter must indicate that the project may be rebuilt to its current use and density with no restrictions. In instances where a property's land value exceeds the loan amount sought by 120%, a rebuild letter is not required.

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### SECTION 17 – IMPROVEMENTS

#### 17.1 OVER-IMPROVED OR SUPER- ADEQUATE PROPERTIES

Properties that are considered over-improved or super-adequate for the neighborhood require a detailed explanation from the appraiser. The appraiser should attempt to utilize recent sales of similar properties (over-improved or super-adequacy) from the subject's market area, if available. If recent sales of such properties are not available, the appraiser should utilize recent sales that are typical for the subject's market area, and make the appropriate adjustments for functional obsolescence based on the market's reaction to the property.

#### 17.2 EFFECTIVE AGE VS. ACTUAL AGE

The relationship of the effective age to actual age is a good indicator of property condition. A property that has an effective age higher than the actual age probably has not been well maintained. In such cases, the condition of the property must be carefully analyzed.

#### 17.3 HEAT SOURCE

The subject property must have an acceptable heating source based on local health and safety codes. A permanent ventilated source of heating is required except in areas where heating is not required.

#### 17.4 PARKING

Adequate off-street parking must be available for the subject property. The property should provide adequate parking that is typical for the neighborhood. Off-street parking for one car is considered acceptable, unless the property is in an area where no off-street parking is typical.

#### 17.5 ABOVE GRADE ROOM COUNT

The appraiser must be consistent when calculating the above grade room count and square footage of the gross living areas that are above grade. For a condominium, the appraiser should use the interior perimeter unit dimensions to calculate gross living area. In all other instances, the exterior building dimensions should be used. Only finished above grade areas should be counted; garages and basements should not be included.

A room that is not included in the above grade room count may add substantial value to the property. Therefore, the appraiser should report the basement area and other partially below grade areas, including the room count, separately and make appropriate adjustments for them in the Sales Comparison Analysis Section.

**SECTION 18 – COST APPROACH**

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The cost approach to value is not required by Acra. However, where completed, all forms of depreciation applicable are required and must be explained.

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**18.1**  
**SITE VALUE AND**  
**LAND VALUE**  
**RATIO**

Where applicable, the estimated site value should include the cost approach for all detached properties. If the site value is more than 50% of the total value, the appraiser should include comments as to whether or not this is common for the subject property market area. If the appraiser's estimate of the site value is one that is not typical for a comparable residential property in the subject property's market area, the appraisal must include comments on how the variance affects the marketability of the subject property.

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**18.2**  
**REMAINING**  
**ECONOMIC LIFE**

The estimated remaining economic life of the property must be included, when the Cost Approach is completed. The estimated remaining economic life of the subject property must be no less than the term of the new loan.

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## **SECTION 19 – SALES COMPARISON ANALYSIS**

### **19.1 SALES COMPARISON**

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At least three (3) verified, closed sales of comparable properties must be analyzed in the appraisal report, with adjustments made for significant differences between the comparable sales and the subject property.

### **19.2 SALES COMPARISON SELECTION CRITERIA**

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The three comparable sales listed in the report must meet the following criteria:

- Must be similar in property characteristics including square footage, room count (bedroom / bath count), design / appeal, construction, condition, amenities, site, etcetera.
- Urban and suburban properties must be measured in city blocks.
- Must be in close proximity to the subject property. Outlying suburban and rural properties generally should not be more than five (5) miles from the subject property without adequate explanation from the appraiser.
- Be recently sold (usually no more than six (6) months before the date of the appraisal). Multiple Listings from the market area are also recommended in areas where current closed sales may be difficult to obtain. The use of an older comparable sale must be justified by comments in the appraisal report. The use of comparable sales over twelve (12) months old must include an extensive explanation from the appraiser and will be considered on a case-by-case only.
- The comparable sales prices should bracket the estimated value of the subject property.
- If adverse conditions affect the subject property, at least the same type of adverse condition must affect two (2) of the comparable sales.

In areas where there are certain style / types of properties that may be typical for the area such as A-frame home, log homes, split level homes, daylight basements, etcetera the comparables utilized must be similar, in the market area, and represent the current market conditions for the time of sale.

### **19.3 ADJUSTMENTS TO COMPARABLE SALES**

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Each comparable sale must be analyzed for similarities and differences between it and the subject property. The appraisal must include appropriate adjustments for differences and indicate the dollar amount of the adjustments. Comparable sales must be adjusted to the subject property. Time adjustments must reflect the time that elapsed between the contract date for the comparable sale and the effective date of the appraisal of the subject property. Unsupported time adjustments are not acceptable.

### **19.4 EXCESSIVE AND MULTIPLE ADJUSTMENTS**

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Excessive and multiple adjustments could indicate that the comparables chosen were not suitable for accurately evaluating the property. The appraiser must "bracket" the comparables so that the property can be analyzed using both higher and lower priced homes.

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**SECTION 20 – INCOME APPROACH**

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The Income Approach is not required by Acra.

However, where completed, the market rents must be supported by comparable sales with similar unit mix and characteristics properties to the subject. The appropriate supplemental addenda for rents and expenses are required.

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## **SECTION 21 – APPRAISER'S COMMENTS**

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The appraiser's comments should reflect the reconciliation of the adjusted or indicated values for the comparable sales and identify which were given the most weight in arriving at the indicated value for the subject property.

Any additional features, necessary repairs or modernization, or physical, functional or external inadequacies must be reported in the comment sections of the appraisal report.

### **ENVIRONMENTAL HAZARDS**

The appraiser must comment on any effects of environmental hazards discovered on or near the site, the impact on marketability or value and an estimate of the scope and / or cost if known to cure.

### **ADDITIONS OR ALTERATIONS**

If the appraisal notes that additions or alterations were made without permits, the comment section should contain comments on the quality and appearance of the work.

### **ENVIRONMENTAL / ENERGY**

The appraiser should use this section to note special energy-efficient items and adverse environmental conditions.

#### **21.1 PROPERTY CONDITION**

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Acra does not fund loans secured by a property with any condition ratings less than average without Senior Management review on a case-by-case basis with compensating factors. The appraiser must report the condition of the improvement in factual terms. Items rated less than average (inferior) in competing properties of the subject's market area generally may result in buyer resistance. The appraiser must comment on these items, the reasons for such ratings and how they affect the marketability and value of the subject property. Any property condition rating that is less than average must be properly conditioned and brought to average or better condition prior to closing.

#### **21.2 WORK IN PROGRESS**

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Any work in progress must be completed and a Satisfactory Certificate of Completion (FNMA Form 442) with photos must be included in the loan file, unless an exemption is granted and documented by Senior Management.

A property with ongoing or recently completed work may be liable to a mechanic's lien(s); an Extended Title Policy specifically covering potential mechanic's liens will be required.

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### **21.3 DEFERRED MAINTENANCE**

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A property may be rejected as security for a loan or may require a reduction in the loan amount if signs of deferred maintenance exist on the appraisal.

Properties that include certain appraiser conditions, subject to items, or deferred maintenance must be described in detail. The appraiser must include the cost to cure to determine the nature of the repairs. The appraiser's comments should address any threat to an occupant's health, safety and habitability.

Licensed contractor bids are required for all repair items. All repair items must be completed and a Satisfactory Completion Certificate (FNMA Form 442) with photos must be included in the loan file.

A property that is being used to store old cars, auto parts, appliances, debris scattered throughout the site, excessive amount of trash, unkempt yard with overgrown trees, shrubs and weeds, should be cleared. A Satisfactory Certificate of Completion (FNMA Form 442) with photos must be included in the loan file.

In the event work is completed by a third-party contractor, appropriately licensed to complete the work required, Acra may consider a signed statement of work and pictures showing the completed work to document the satisfaction. File should document the contractor is paid for said work or can pay through the Closing.

### **21.4 MINOR OR COSMETIC DEFERRED MAINTENANCE**

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Deferred maintenance items that are considered minor and cosmetic and do not affect the safety, structural integrity, mechanical systems, or habitability of the improvement need not be repaired. Minor cosmetic items may include as a non-exhaustive list of examples: interior or exterior painting, worn carpet, worn linoleum, minor patching, replacement of fixtures, minor clean up items, or minor landscaping. While these items are not required to be cured or repaired, a cost to cure must be established on the appraisal or with a contractor's bid. The total cost of the repairs may not exceed the greater of \$5,000 or 3.0% of the property's value.

### **21.5 HEALTH AND SAFETY ISSUES**

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All items that have been identified as potential health and safety issues by the Appraiser or Acra must be satisfactorily addressed or resolved. A Satisfactory Certificate of Completion (FNMA Form 442) including photos of the repaired items prior to closing is required.

Health and safety issues may include as a non-exhaustive list of examples; a broken window, empty pool without appropriate fencing, security bars not equipped with safety release latches, upper-level doors with no balcony, missing railings, broken steps, missing handrails on steps / stairs consisting of six (6) or more levels, major electrical, and plumbing repairs.

#### **SECURITY BARS**

For health and safety reasons, a property with security bars on the windows and / or doors should be equipped with safety release latches. The appraiser must comment whether or not the security bars have safety release latches. A property that has a minimum of three (3) unobstructed exits will not require safety release latches on the security bars, unless required by the local municipality.

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**21.6**  
**STRUCTURAL**  
**DEFERRED**  
**MAINTENANCE**

Structural items are not covered in the cosmetic rule. Structural items can be roofing, internal plumbing, electrical, or anything that affects the "bone structure" of the house. Items like termite damage, wood rot, roof leaks, broken windows, door damage, gross ceiling or wall damage, unstable or non-level floors, foundation problems, basement leaks, or major exterior wall problems are further examples of structural deferred maintenance.

Properties with structural damage will not be acceptable unless repaired. Structural concerns require a satisfactory structural report. The repair items must be corrected and a Satisfactory Certificate of Completion (FNMA Form 442) including photos of the repaired items prior to closing is required.

In the event work is completed by a third-party contractor, appropriately licensed to complete the work required, Acra may consider a signed statement of work and pictures showing the completed work to document the satisfaction. File should document the contractor is paid for said work or can pay through the Closing.

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## **SECTION 22 – RECONCILIATION OF VALUE**

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The reconciliation must contain any conditions of the appraisal on which the final estimate of value is based. The rationale in the final reconciliation must be consistent with the comments, conclusions and assumptions stated throughout the appraisal report. The appraiser must indicate if the appraisal is made “as-is” or “subject-to” repairs or completion.

The report must state that the current Form 439 is attached and must contain the:

- Date of the value estimate;
- Estimate of market value;
- Appraiser's name and original or digital signature;
- Appraiser's state certification or license number; and
- A statement that the appraisal was prepared in accordance with the requirements of Title XI of the Financial Institutions, Reform, Recovery, and Enforcement Act (FIRREA) of 1989, as amended (12 U.S.C. 3331 et seq.).

### **22.1 VALUE CONCLUSION**

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The value conclusion must be well supported and documented. All approaches to value must be reconciled except on properties where certain approaches to value may not be applicable.

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Senior Management at Acra Lending maintains discretion for interpretation or definition of any item or situation that is not explicitly addressed in the guidelines.

## SECTION 23 – DOCUMENTATION & CLOSING

### I. CREDIT FILE DOCUMENTATION

**23.1****CREDIT FILE  
DOCUMENT  
REQUIREMENTS**

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Following are documents that must be included in each loan file, as required.  
These documents must be included according to the Credit Documents checklist.

- Completed Acra Submission Sheet
- Cover Letter, if applicable
- Uniform Underwriting and Transmittal Summary (FNMA Form 1008)
- Seller's Underwriters Analysis Worksheet
- Underwriting Condition Sheet / Conditional Loan Approval
- Original Typed Loan Application (FNMA Form 1003)
- Original Initial Loan Application (FNMA Form 1003)
- A copy of all Applicant's government issued picture identification (i.e.: US State driver's license or Passport)
- Social Security Card (not required where an SSA-89 or 4506-C / -T is obtained from the Social Security Administration or Internal Revenue Service)
- Loan Purpose Letter

A. Credit

- Credit Reports, Credit Report Supplements
- Original Credit Explanation Letter(s)
- Copies of canceled checks for payment ratings
- Original Verification of Mortgage / Verification of Rent - payment ratings
- Bankruptcy Papers
- Demands / Pay-Off Statements

B. Income

- Verbal Verification of Employment Completed by Seller
- Original Verification of Employment (VOE)
- Current Paystubs
- Social Security & Pension Award Letters
- Business Bank Statements
- Two Years W-2s / 1099
- Alternative Documentation for Self Employed: 12 Months of bank statements
- Profit and Loss Statements
- Original signed IRS Tax Returns
- Rental / Lease Agreements

(Continued)

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### 23.1

#### **CREDIT FILE DOCUMENT REQUIREMENTS (CONTINUED)**

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#### C. Assets

- Verification of Deposit (VOD), bank statements, earnest money deposit, gift letter, etcetera
- Certified copy of Subordination Agreement, Second Mortgage / Deed of Trust and Note
- Certified copy of Sale Escrow / Closing Instruction for previous home, Certified copy of Closing Statement for previous home
- Certified copy of Purchase Contract / Deposit Receipt
- Certified copy of Escrow / Closing Instructions & Amendments

#### D. Appraisal

- Appraisal Review
- Certificate of Completion (FNMA Form 442) & Photos
- Appraisal Report / addenda / attachments / photos
- Termite Reports & Clearance
- Well, Septic, Roof Certification
- Property Inspection Reports
- Certified copy of Recorded Notice of Completion
- Original HOA Letter
- Certified copies of Grant Deed / Quitclaim Deed / Interspousal Transfer Grant Deed
- Preliminary Title Report / Title Commitment
- Original Survey

#### E. Initial Disclosures

- Original Loan Estimate (LE)
  - Fair Lending Notice
  - ECOA Disclosure Mortgage Service Transfer Disclosure
  - Re-Disclosure Loan Estimate(s)
  - Special Information Booklet (when applicable)
  - Consumer Handbook on Adjustable-Rate Mortgages (when applicable)
  - Compliance Agreement
  - Section 32 Worksheet
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### II. LEGAL FILE DOCUMENTATION

#### 23.2

#### LEGAL FILE DOCUMENT REQUIREMENTS

The following documents are required to be placed in the proper stacking order as noted on the intake form:

- Legal Document Checklist
- Copy of Preliminary Loan Purchase Approval (PLPA) from Acra as the Lock Confirmation
- Loan History (if any payments and premiums are due prior to Acra's purchase date)
- Final Closing Disclosure Statement
- Signed Borrower's Instruction from Closing Agent / Escrow
- Certified Copy of Specific Power of Attorney
- Copy of Goodbye Letter to Borrower(s)
- Copy of Goodbye Letter to Hazard Insurance Agent
- Copy of Good Bye Letter to Flood Insurance Agent
- Certified Copy or the Original Mortgage Note with endorsements
- Certified Copy or the Original Addendum to Mortgage Note
- Certified Copy of Security Instrument
- Certified Copy of all applicable Riders
- Two (2) Certified Copies of Corporate Assignment of Security Instrument to Acra, unless seller is a member in good standing of Mortgage Electronic Registration System ("MERS") and shown on the MERS website as being the originator and owner of mortgage. A print out from MERS Website is required showing history of MERS registration.
- Certified copies of Intervening Corporate Assignment of Security Instrument to Seller or MERS, if applicable.
- Lender's Certification
- Hazard Insurance Policy / Certificate of Insurance Binder
- Flood Insurance Policy / Executed copy of application
- Original Life-of-Loan Flood Zone Determination Certificate
- Original Tax Record Information Sheet Form 25
- Original transferable Life-of-Loan Tax Service Contract
- Original upfront Closing Disclosure
- Original Notice of Right to Cancel
- Original Notice to Borrower(s) Impound / Escrow Account Agreement
- Original Notice of Transfer of Loan Servicing
- Original W-9 Identification and Certification
- Original 4506-T Request for Copy of Tax Form, if applicable
- Original FNMA 1097 Borrowers Certification and Authorization
- Original "Also Known As" (AKA) Statement
- Original ARM Disclosure
- Other Miscellaneous Documents

(Continued)

**23.2  
LEGAL FILE  
DOCUMENT  
REQUIREMENTS  
(CONTINUED)**

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Each legal file shall contain at a minimum the follow documents (as applicable):

- Security Instrument and Power of Attorney
- Either (i) original recorded Security Instrument with recording information thereon, together with a certified true copy of the original Power of Attorney showing the recording information thereon if the Security Instrument was executed by an attorney in fact; (ii) a certified true copy of the Security Instrument and the Power of Attorney (if applicable), originals of which have been transmitted for recording, until such time as originals are returned by the public recording office in which case Seller shall deliver the original recorded Security Instrument to Acra; or (iii) a copy of the Security Instrument certified by the public recording office in those instances where the public recording office retains the original or the original is lost, together with a duplicate original mortgagee's certificate of title if the Security Instrument is registered under the Torrens system.
- Must be a specific Power of Attorney and at least one up front document must be signed by Borrower giving the Power of Attorney.
- Corporate Assignment of Security Instrument (Deed of Trust or Mortgage), if loan was originated by Seller not approved or in good standing with MERS.
- Certified true copies of the Assignment for each Mortgage Loan, to Acra, in form and substance acceptable to Acra, and in acceptable form for recording, signed in the name of Seller by an authorized officer; provided, however, that certain recording information will not be available if, as of the Purchase Date, Seller has not received the related recorded Security Instrument from the recorder's office; provided however, that Seller is a MERS member. If the original Assignment is received, and the recording is done by Acra, there will be an additional charge at purchase.
- If Seller is an approved member of MERS in good standing, Seller may register the loan on MERS (Mortgage Electronic Registration System) and will take all necessary steps to ensure the transfer the Security Instrument to Acra as investor and servicer (Organization ID# 1007419) via MERS. Acra System within 48 hours of Purchase of loan by Acra.
- Intervening Assignments. Certified true copies of all intervening assignments to seller if any with evidence that the originals have been transmitted for recording until such time as the originals are returned by the public recording office or a copy of each such assignment certified by the public recording office if such office retains the original, or if the original is lost. If the payee of the Note will be assigning the Note under a different name, whether as a result of a merger, name change, receivership, or other event which did not require separate endorsement and assignment, certified copies of the documents evidencing such events must be provided, such evidence to be satisfactory in form and substance to Acra.

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**23.2**  
**LEGAL FILE**  
**DOCUMENT**  
**REQUIREMENTS**  
**(CONTINUED)**

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- A. Assumption, Modification, Consolidation or Extension  
Originals of all assumptions, modifications, consolidations, or extension agreements, with evidence of recording thereon, if any.
  - B. Security Agreement  
Originals of the security agreement, chattel mortgage or equivalent, executed in connection with the Mortgage, if any.
  - C. Guarantees  
Original guarantee(s), if any.
  - D. Title  
A copy of any Title Insurance Commitment / Preliminary Title Insurance Policy and any closing protection letter or the original Lenders Title Insurance Policy (in Seller's name) in such form and subject to such exceptions as are approved by Acra.
  - E. Title Exceptions  
Copy of each instrument necessary to complete identification of any exception set forth in the Lender's Title Insurance Policy, if any.
  - F. Insurance  
Original Hazard Insurance Policy (or certificate of insurance for a condominium or planned unit development unit) and certificate or original Flood Insurance Policy, if applicable.
  - G. Loan Closing  
Loan closing statement or a copy thereof.
  - H. Disclosure Statements  
All original required disclosures, including any required by federal and state fair lending regulations, equal credit notices, the Loan Estimate, Intent to Proceed Statement, the Closing Disclosure, rescission notices, and Adjustable Rate Mortgage disclosure forms prepared in connection with the Loan, indicating that disclosure statements were properly delivered to the Borrower(s).

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### 23.2 LEGAL FILE DOCUMENT REQUIREMENTS (CONTINUED)

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- I. Payment Records  
Payment records showing the Borrower name, account number, unpaid principal balance of the Mortgage Loan, the amount of periodic installments and the date(s) to which principal, interest, and any escrows have been paid, all disbursements, tax receipts, and insurance premium receipts.
  - J. Tax Service Contract  
Transferable tax service contract, from Transamerica Real Estate Tax Service. If no transferable tax service contract is included, the cost of tax service contract will be subtracted from the Purchase Proceeds.
  - K. Flood Certification  
Transferable life-of-loan flood certification, from Transamerica Flood Services. If no transferable life of loan flood certification is included, the cost of a Life-of-Loan flood cert will be subtracted from the Purchase Proceeds for the related Mortgage Loan.
  - L. Form W-9 (W-8 for Non-resident Aliens)  
Form W-9 (or W-8, as applicable) for each Borrower.
  - M. Goodbye Letter  
Copy of Goodbye Letter to Borrower on Seller's letterhead comparable to the CSC form.
  - N. Insurance Notice of Transfer Letter  
Copy of Insurance Notice of Transfer Letter in the form of CSC requesting loss payable endorsement for all applicable Insurance Policies.
  - O. Payment Coupon  
Copy of Payment Coupon Letter comparable to the CSC form.
  - P. Additional Documents
    - Any additional documents related to the servicing of the Loan including ledger sheets, correspondence, insurance claim files and correspondence, and all other papers and records developed or originated by Seller or others, required to document the Loan or to service the Loan;
    - Any and all other documents, agreements, or instruments related to the mortgage loan or the mortgage note and Seller's right and benefits therein;
    - All other documents related to the making and closing of the mortgage loan; and
    - Any other documents, agreements, or instruments related to the loan or required by Acra, in order to enable Acra to sell the mortgage loan to a private investor or as part of a securitization or other financing vehicle.

### 23.3 RISK OF LOSS

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Seller bears all risk of loss for each credit file and mortgage document file delivered to Acra unless and until the purchase date occurs and should maintain appropriate insurance against loss; provided, however, that Acra will hold Seller harmless from and against all costs and expenses associated with the replacement of the credit file and mortgage document File or documents contained therein when the loss results from or is connected with gross negligence or willful misconduct by Acra in the handling of the credit file or the mortgage document file.

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### 23.4 MORTGAGE NOTE REQUIREMENTS

#### A. Late Fees

Unless applicable law requires otherwise, all Notes must reflect a late charge of no less than 5%, and late charges must be assessed no earlier than the 15<sup>th</sup> day of the month in which the scheduled payment is overdue.

#### B. First Payment / Scheduled Payments

The Mortgage Note must provide for full amortization by maturity through scheduled payments. The first scheduled payment must be due no less than thirty (30) days after final disbursement of loan proceeds to the mortgagor, and all payments must be due on the first of the month.

##### Example 1

Closing Date	09/08/2021
Disbursement Date	09/12/2021
First Payment Date	11/01/2021
Prepaid Interest Calculation	09/12 through 09/30 = 19 days

##### Example 2

Closing Date	10/01/2021
Disbursement Date	10/01/2021
First Payment Date	11/01/2021
Prepaid Interest Calculation	None

##### Example 3

Closing Date	09/27/2021
Disbursement Date	10/02/2021
First Payment Date	12/01/2021
Prepaid Interest Calculation	10/02 through 10/31 = 29 days

#### C. Note Endorsement

All Notes must be endorsed to Citadel Servicing Corporation:

WITHOUT RECOURSE  
PAY TO THE ORDER OF  
CITADEL SERVICING CORPORATION

\_\_\_\_\_  
Seller Officer Signature

### 23.5 MORTGAGE LOAN DOCUMENTS

#### A. Changes and Alterations

Seller warrants and represents that no changes or additions to the Note or Security Instrument permitted herein will be made if the changes or additions would adversely affect the negotiability of the Note or otherwise impair any rights of Acra that may otherwise be provided under the mortgage loan documents.

#### B. Corrections to Loan Documents

The mortgage loan documents must be free of errors with no erasures, whiteout, or other changes. If a correction must be made and a new instrument cannot be drafted, a single line should be drawn through the incorrect portion and the correction should be typed in. All mortgagors must initial the change.

#### C. Power of Attorney

A Power of Attorney ("POA") is a legal document giving one person (described below as the "agent" or "attorney in fact") the power to legally bind the principal. Loans with documentation executed by an agent on behalf of the borrower or principal under a POA are eligible, subject to approval by Legal, if all of the following requirements are met:

- Can only be created by a principal / borrower who is 18 years of age or older;
- The principal must also have the mental and legal capacity to enter into a contract;
- Must contain date of execution:
  - Dated such that it is valid and not expired at the time the relevant loan documents are executed;
- Must be signed by the principal and acknowledged in person before a notary public. See Notary requirements in [Section 23.5\(D\)](#);
- Must comply with any other specific requirements of the state where the POA is notarized;
- Must be complete, which includes any referenced exhibits contained in the POA;
- All pages must be fully legible, including but not limited to, the notary stamp;
- The Agent / Attorney in Fact must be mentally and legally competent (e.g.: age 18 and over);
- The Agent / Attorney in Fact cannot be a licensed Real Estate Agent, Broker, or any party that directly benefits from the closing of the transaction;
- Agent's name on the POA must match the identification(s) provided to Acra;
  - If the Agent's name does not match the identification, Agent must provide a notarized Name Affidavit addressing the discrepancy;
- Principal's name on the POA must match the identification(s) provided to Acra;
  - If the principal's name does not match the identification exactly, a letter of explanation will be required to address the name discrepancy;
- Principal must authorize the agent to execute the required loan documents on behalf of the borrower;
- Must be specific to the transaction by referencing (i) the subject property by common address or complete legal description; and / or (ii) the transaction with Acra or CSC;
  - A Durable Power of Attorney that is not made specific by referencing the property or Acra Lending is not permitted, except by special

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exception granted in writing by Acra's Legal or Senior Management only;

- Exception to use of a Durable Power of Attorney may be granted when the principal is mentally or physically incapacitated as confirmed in writing by the principal's treating physician submitted on the physician's letterhead bearing their full name, contact information, including phone number, and specialty, or by Court Order;
- Must not contain any blanks;
- No material or significant changes may be made to the POA once it is signed by the principal and notarized;
- Changes to the POA may only be made by the principal with his / her initials next to the correction or change;
- Title must provide written confirmation that the POA is acceptable and will be recorded concurrently with the security instrument, with a copy provided to Acra;
- If there is more than one (1) borrower, they may each provide a separate POA or a joint POA designating one (1) agent to sign on their behalf; and
- A POA terminates upon the principal's death. This means that the agent's authority to handle any financial matters on behalf of the principal when the principal dies.

Legal reserves the right to condition for additional supporting documentation as determined in its sole discretion.

#### D. Notary Requirements

- Notarized document(s) must (i) comply with the requirements of the state in which the document is notarized, including but not limited to the signer being physically present, and (ii) bear a clear, legible seal / stamp with the name of the notary, the State or the name of the County where the notary is bonded, and the date the notary public's commission expires (except in case of documents notarized at US Embassy or Consulate).
- Acra does not accept Power of Attorneys or Security Instruments that are signed electronically, via remote online notarization, remote ink-signed notarization, or in-person electronic notarization.
- Generally, a notary is barred from acting outside his or her home state unless they also have a commission there as well. The following are permissible exceptions to documents notarized outside the U.S.:
  - Documents notarized at a U.S. Embassy or Consulate bearing a US seal / stamp;
  - Document notarized via an Apostille in a foreign country that is a signatory to the Hague Convention of October 05, 1961 Abolishing the Requirement of Legalization for Foreign Public Documents (HCCH 1961 Apostille Convention) (Reference: <https://www.hcch.net/en/instruments/conventions/status-table/?cid=41>);
  - Florida International Notary a/k/a Florida Civil Law Notary, who is an attorney in good standing with the Florida Bar, who has been in practice for at least five (5) years and is registered or certified as a Florida Civil Law Notary by the Florida Division of Corporation at the time of notarization (Reference: <https://dos.myflorida.com/sunbiz/other-services/notaries/civil-law-notary>);
  - A Military notary (i) who is a member of the US armed forces; and (ii) given power of a notary under federal law bearing a notary seal / stamp "Under Authority of 10 U.S.C. s1044a."; or

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- Any other exceptions to the notary requirements must be approved in advance and in writing by Acra's Legal or Senior Management.

Legal reserves the right to condition for additional supporting documentation as determined in its sole discretion.

### 23.6 PAYMENT HISTORY

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All mortgage loans must be current on the date purchased by Acra and the scheduled payment due on the cutoff date must have been applied.

The mortgagor's payment history must meet loan program and credit category criteria. Therefore, Acra will consider all delinquencies as of the purchase date.

### 23.7 PAYMENT DUE

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The first payment due date for each loan must be no less than 30 days after the date the loan funds and no more than 60 days after the loan funds. For purchase money loans, the monthly payment due date must be the first day of the month. For non-purchase money loans, the monthly payment due date must be on the same day each month.

Principal and interest (P & I) payments must be calculated using 30-day months, with interest paid in arrears, and with P & I rounded to the nearest penny. The late charge must be a minimum of 5% of the P & I payment (or a lesser amount if state law requires), payable for any payment not received by the 15<sup>th</sup> calendar day after it is due, grace period may be 10 days where permitted by law.

### 23.8 PREPAID INTEREST

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#### A. Number of Days

To determine the number of days of prepaid interest to collect, take the number of days in the funding month, subtract the day of disbursement, and then add 1.

Example: October (31 days), disbursement date 10/24,  $31 - 24 + 1 = 8$

#### B. Basic Formula

Multiply the loan amount by the annual interest rate, then divide by 360 (days).

Multiply the result by the number of days to determine the prepaid interest amount.

Example: Prepaid Interest =  $[(\text{loan amount} \times \text{interest rate percent}) \div 360 \text{ or } 365] \times \text{the number of days prepaid}$

Prepaid interest must be treated as a prepaid finance charge for Loan Estimate and Closing Disclosure purposes.

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### III. REGULATORY COMPLIANCE ITEMS

#### 23.9

##### GENERAL

Seller must comply with all lending laws, including but not limited to:

- The Dodd-Frank Wall Street Reform and Consumer Protection Act
- Truth-In-Lending Act (Regulation Z)
- Real Estate Settlement Procedures Act (RESPA) (Regulation X)
- Equal Credit Opportunity Act (ECOA) (Regulation B)
- Flood Disaster Protection Act
- State specific laws and regulations

#### 23.10

##### TILA-RESPA INTEGRATED DISCLOSURES (TRID)

##### A. Initial TILA-RESPA Integrated Disclosure ("TRID") Disclosure

- A copy of the initial TRID Disclosure, the Loan Estimate, given to the Borrower within three (3) business days of the Borrower's application must be in the loan file.
- A copy of any and all re-disclosure Loan Estimates given to the Borrower within three (3) business days of a documented Changed Circumstance must be in the loan file.

##### B. Final TRID Disclosure – Closing Disclosure

Seller must include a copy of any and all Closing Disclosures in the loan file and comply with all TRID disclosure requirements including the following:

- Finance charge must not be understated by more than \$35;
- All prepaid finance charges must be itemized as "finance charge" as required by Regulation Z;
- Seller must refund understated finance charges to the Borrower prior to Acra purchasing the loan;
- Final Annual Percentage Rate (APR): Disclosed APR must be accurate within 1/8 (0.125%) of a percent;
- Payment Schedule must accurately reflect the terms of the loan; a discounted ARM must always show increasing payments;
- Prepayment Option must accurately reflect the terms of the legal documents; and
- Signature:
  - Rescindable Transaction: Must be signed by all parties given the Notice of Right to Cancel; or
  - Non-Rescindable Transaction: Must be signed by all parties having ownership interest.

**23.11**  
**FINANCE**  
**CHARGES**

- 
- Administration Fee
  - Application Fee
  - Assignment Fee
  - Assumption Fee
  - Attorney Fee
  - Broker Fee
  - Closing Fee
  - Commitment Fee
  - Courier Fee
  - Demand Fee
  - Discount Fee
  - Escrow Fee
  - Flood Monitoring (Life-of-Loan)
  - Funding Fee
  - Loan Tie-In Fee
  - Lock-In Fee
  - Notary
  - Messenger / Courier / Express Mail Fee
  - Origination Fee
  - Prepaid Interest (Odd days interest)
  - Processing Fee
  - Redraw Fee
  - Settlement Fee
  - Sign-up Fee
  - Sub Escrow Fee
  - Tax Service Fee
  - Underwriting Fee
  - Warehouse Fee
  - Wire Fee
  - Any Other Fees Charged by the Lender or Broker
  - Acra does not allow Yield Spread Premium

**23.12**  
**NON-FINANCE**  
**CHARGES**

- 
- Appraisal Fee (amount on invoice)
  - Appraisal Review Fee
  - Credit Report (amount on invoice)
  - Document Preparation
  - Flood Certification / Determination (non-life-of-loan only)
  - Flood Insurance
  - Hazard Insurance
  - Intangible Tax
  - Pest Inspection
  - Property Inspection
  - Property Taxes
  - Reconveyance
  - Recording Fee
  - Roof Inspection
  - Survey
  - Termite Inspection
  - Title Insurance
-

**23.13  
NOTICE OF RIGHT  
TO CANCEL**

Any party having ownership interest in a primary, owner-occupied residence must be given the Right to Cancel until midnight of the third business day following the latter of three (3) events. No money shall be disbursed until the rescission period has passed. The three (3) events are:

1. The date of the transaction;
2. The date the Borrower receives all material disclosures pursuant to 12 CFR § 1026.23(3)(i) & (ii); or
3. The date the Borrower receives the Notice of Right to Cancel

Saturday may be counted as a business day for rescission purposes. However, Sundays and the following Holidays must not be counted as business days for rescission purposes:

- New Year's Day;
- Martin Luther King, Jr. Day;
- Presidents' Day;
- Memorial Day;
- Juneteenth Day;
- Independence Day;
- Labor Day;
- Columbus Day;
- Veteran's Day;
- Thanksgiving Day;
- Day after Thanksgiving; and
- Christmas Day.

Acra does not purchase loans in which the Right to Cancel is incomplete or contains incorrect dates.

**23.14  
ARM  
DISCLOSURE /  
CONSUMER  
HANDBOOK ON  
ADJUSTABLE  
RATE  
MORTGAGES**

In compliance with Federal Regulations established by the Truth-In-Lending Act, Seller must deliver to all Borrower(s), where the loan is an Adjustable Rate Mortgage (ARM) loan, an ARM Loan Program Disclosure and Consumer Handbook within three (3) business days of receipt of the loan application.

**23.15  
SPECIAL  
INFORMATION  
BOOKLET**

In compliance with Federal Regulations established by the Real Estate Settlement Procedures Act, Seller must deliver to all Borrower(s), where applicable, a Special Information Booklet at the time of receipt of the loan application.

**23.16  
ESIGN ACT**

In compliance with Electronic Signatures in Global and National Commerce Act, 15 USC 7001 et seq, Seller must provide proof of properly informed consumer's consent to accept and acknowledge documents via electronic means.

**23.17  
SECTION 32  
HOEPA**

Acra does not purchase loans in which the points and fees charged or the APR would subject the loan to provisions of Section 226.32 of Regulation Z. More specifically, Acra does not purchase Section 32 loans.

**23.18  
TILA HIGHER-  
PRICED  
MORTGAGE  
LOANS  
APPRAISAL RULE**

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In compliance with Federal Regulations established by the TILA Higher-Priced Mortgage Loans Appraisal Rule (when applicable):

- Disclose to consumers within three (3) business days after receiving the consumers' applications that they are entitled to a free copy of any appraisal the creditor orders and also can hire their own appraiser at their own expense for their own use.
- Obtain a written appraisal performed by certified or licensed appraiser in conformity with the USPAP and Title XI of FIRREA and its implementing regulations.
- Have the appraiser visit the interior of the property and provide a written report.
- Deliver copies of appraisals to applicants no later than three (3) business days before consummation.

**23.19  
ECOA  
VALUATIONS  
RULE**

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Proof of adherence to the ECOA Valuations Rule (when applicable):

- Notify the applicant in writing within three (3) business days of application of the right to receive a copy of any appraisal developed in connection with the application.
  - When processing an application for a closed-end loan, copies of appraisals and other written valuations must be provided "promptly upon completion," or three (3) business days before consummation, whichever is the earliest.
  - When processing an application for an open-end loan, delivery of copies of appraisals and other written valuations must be delivered "promptly upon completion," or three (3) business days before account opening, whichever is earlier.
  - The applicant cannot be charged for copies of any appraisal or written valuation you provide; however, a reasonable fee can be charged to reimburse the cost of the appraisal or other written valuation if not otherwise prohibited by law.
  - For applicants who waive the right to receive the required copies at least three (3) business days before consummation or account opening, you must provide the copies either at, or prior to, consummation or account opening.
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**23.20**  
**REAL ESTATE**  
**SETTLEMENT**  
**PROCEDURES ACT**  
**(RESPA)/ TILA-**  
**RESPA**  
**INTEGRATED**  
**DISCLOSURE**  
**RULE**

- 
- A. Loan Estimate (LE)  
 Loan files must contain a copy of the LE delivered to the Borrower within three (3) business days of receiving the application. An associated Intent to Proceed should also be documented. When applicable full documentation of any changed circumstances resulting in re-disclosure is required in addition to any re-disclosed LEs.
- B. Servicing Disclosure Statement  
 Loan files must contain the disclosure advising the Borrower that loan servicing may be transferred to another entity.
- C. Closing Disclosure (CD)  
 Loan files must contain a certified copy of the final Closing Disclosure settlement statement(s). Seller must ensure that the final charges considered "prepaid finance charge" for Regulation Z purposes were properly disclosed in the Truth-In-Lending calculations.  
 Any yield spread premium or similar payment paid by Seller to its third-party originator must be properly disclosed as "POC (paid outside of closing)."
- D. Notice Regarding Copy of Appraisal  
 Loan files must contain evidence that Seller delivered to the Borrower a disclosure describing the Borrower's right to a copy of the subject property appraisal report.
- E. Anti-Discrimination  
 Seller may not discriminate against any Borrower on the basis of race, religion, sex, age, color, marital status, national origin, the fact that the Borrower receives income from public assistance, or the fact that the Borrower has exercised his / her rights under the Consumer Protection Act.
- F. Government Monitoring  
 Seller must ensure that the Government Monitoring Section of the Residential Loan Application (FNMA Form 1003) is completed on all loans submitted for purchase by Acra.
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**23.21**  
**STATE LAWS**

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- Seller and its third-party originators must comply with the laws of all states in which it conducts business which includes, but is not limited to:
- Usury (maximum interest rate) laws;
  - Disclosure requirements;
  - Licensing laws;
  - Loan fee restrictions; and
  - Marital / signature rights of non-owning spouses.
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### 23.22 CONFLICTS OF INTEREST

Lender should monitor parties in connection to closing of the transaction for conflicts of interest and related parties. Ineligible loans include where parties either handle their own funds via the closing or lack disinterest between parties in the transaction. As example in a non-comprehensive or exhaustive list:

- Broker represents the Seller in a Real Estate transaction on one hand and represents the Buyer as the MLO in the other hand;
    - Not to be confused with a Dual Real Estate Agent, which is allowable with proper disclosure to both Buyer and Seller of the property in advance of the purchase agreement's execution;
  - Broker has an ownership interest or manages the Closing Firm / Escrow to the transaction;
    - May be acceptable on a case-by-case where there is a sub-escrow and funds are forward to the Title company;
    - Parties should not be allowed to pay themselves or handle funds eventually being payable to themselves through the transaction;
  - Broker has an ownership interest or manages the Appraisal Management Company ("AMC") that provides the appraisal;
  - Broker / Lender are representing an employee or themselves as MLO in the transaction;
  - Broker / Lender has an ownership interest or manages the Title Insurance Company that provides the commitment / policy;
  - A Buyer also represents the Seller as the transaction's real estate agent;
  - Anytime state law requires separately licensed parties to the transaction;
    - Transaction must comply with the laws of all states in which it conducts business; or
  - Notary is a party to or employee of Broker or Real Estate Agency.
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### IV. TITLE INSURANCE REQUIREMENTS

<b>23.23</b> <b>TITLE INSURANCE</b>	<p>Title Insurance is an indemnity against unknown defects, including objections to the title that exist as of the date on the policy. In the event of a claim, the title company provides legal defense for the policyholder and pays any covered losses incurred as a result of such claim.</p>
<b>23.24</b> <b>TITLE INSURER</b>	<p>The title insurance policy must be issued by a title insurer acceptable to Fannie Mae and Freddie Mac, and who is qualified to do business in the State where the mortgaged property is located.</p>
<b>23.25</b> <b>TITLE POLICY FORM</b>	<p><b>A Standard or Extended ALTA Policy of Title Insurance</b></p> <p>Must be written on the 1992 Standard Policy Form of the American Land Title Association (ALTA). In states where the ALTA form is not used, Acra will accept similar forms currently acceptable to Fannie Mae and Freddie Mac.</p> <p>A current Closing Protection Letter ("CPL") issued by the Title Insurance Company covering the acts of their authorized Closing Agent is required if not already included in the Title Insurance policy.</p> <p>Corrections to spell out an applicant's full name or middle initial or the subject property's address street direction (example: "East" versus "E") are not required on the CPL, Insurance, or Wire Instructions. As a non-exhaustive list of examples on the name(s): "Ann" versus "A." (in connection to a middle name), "Dave" versus "David", or "Jr." versus "Junior".</p> <p>In the instance there is an acceptable – within the above-described limitation(s) – variance to the Applicant(s) name(s), these variations should be added to the Also Known As ("AKA") document on the Signature Affidavit that is included in the loan document closing package.</p> <p><b>Creditors' Rights Provisions</b></p> <p>Every ALTA Policy, other than the 1992 revision, when issued must include the following lender's rights provision:</p> <p style="padding-left: 40px;">"any claim which arises out of the transaction creating the interest of the mortgagee insured under this policy, by reason of the operation of federal bankruptcy, state insolvency, or similar creditor's rights laws."</p> <p>This specific wording was excluded in the 1990 ALTA form and may appear in some revised 1970 and 1987 forms.</p>

### 23.26 TITLE INSURANCE REQUIREMENTS

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- A. Effective Date**  
The effective date of the title insurance may be no earlier than the latter of the date of the final disbursement of loan proceeds or the date the mortgage was recorded.
- B. Acceptable Minimum Coverage**  
Title insurance coverage must be equal to the original mortgage amount.
- C. Beneficiary**  
Protection and benefits from the title insurance policy must insure the mortgagee of the loan and all of its successors and / or assigns.
- D. Lien Requirements**  
The title insurance policy must insure that the Security Instrument creates a valid first or second lien position, as applicable, on the Mortgaged Premises. The policy must list any lien for subordinate financing and state that the lien is subordinate to the lien of the Security Instrument.
- E. Exceptions**  
The title insurance policy must not be subject to any exceptions, other than those permitted under Title Exceptions.
- F. Estate or Interest Vested**  
Must be the complete names of all mortgagors and must include the way in which title is being held (except in states where vesting or marital status is not required).
- G. Real Property Taxes**  
Must be current. The title policy must show all taxes to be a lien not yet due and payable.
- H. Property Address**  
Must be stated on a Standard 116 (or equivalent unless unavailable in a specific state).
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### 23.27 PRELIMINARY TITLE REPORT / TITLE COMMITMENT

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- The preliminary title report / title commitment must contain the following:
- Cover page;
  - Purpose of the report;
  - Type of insurance to be issued;
  - The obligation of the title company to provide insurance subject to the provisions of Schedules A and B and to the conditions and stipulations therein;
  - Name of the proposed insured;
  - Amount of insurance;
  - Proper name(s) of the person(s) in which title is vested;
  - Recording information of deed, including book and page;
  - Legal description of the property;
  - Type of ownership involved (estate or interest covered);
  - Subject property address; and
  - Plat Map or Survey.
-

**23.28  
AGE OF  
PRELIMINARY  
TITLE REPORT /  
TITLE  
COMMITMENT**

The Preliminary Title Report / Title Commitment must be dated no more than sixty (60) days prior to loan closing and must show that the subject lien will be in a clear first or second position, as applicable. Any exceptions to title (i.e.: Statement of Information) must be cleared prior to closing / funding.

**23.29  
GAP LETTER**

On a case-by-case, Acra can consider a Gap Letter where provide by Escrow / Closing Attorney, should said letter:

- Specifically identify the subject transaction;
- Be issued / drafted by a recognizable "major" – as defined exclusively in the discretion of Acra – Title Company; and
- Dated within 30 days prior to the funding.

Specific to refinances, the transaction should be at 80% or lower LTV and borrowers should not have recent mortgage lates, or any non-mortgage liabilities on Title (i.e.: tax liens, mechanic's lien, lis pendens, etcetera).

**23.30  
OWNERSHIP  
INTERESTS**

Types of the Ownership (Title Vesting) may include the following:

**A. Individual**

An individual Borrower taking sole-ownership (title) to a property.

**B. Joint Tenants**

An undivided ownership giving each tenant equal interest and equal rights in a property, including the right of survivorship.

**C. Tenants-in-Common**

A form of ownership interest by two (2) or more persons that provides for no right of survivorship. The ownership interest does not need to be of equal percentage (i.e.: three (3) owners on title: one (1) owner has 10% interest, one (1) owner has 40% interest, and one (1) owner has 50% interest).

**23.31  
RIGHTS OF  
OWNERSHIP**

Acra makes loans on one- to four-family (1-4) dwellings that include: Manufactured Homes, Condominiums, and Planned Unit Developments (PUDs).

All estates or interest in land should be described on the Preliminary Title Report and Title Policy as fee, fee simple, or leasehold.

**A. Fee or Fee Simple**

Fee or Fee Simple is the greatest possible interest a person can have in real estate, including the right to dispose of the property or pass it on to one's heirs.

**B. Leasehold**

Leasehold is the estate or interest in real estate held by virtue of a lease. In the case of a ground lease, the ownership interest is in the dwelling only and the land is leased from the lessor of record. Acra does not lend against Leasehold properties.

**23.32**  
**LEGAL**  
**DESCRIPTION**

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Occasionally, the legal description of the subject property may have an exception for mineral rights to the property (i.e.: oil, gas, etcetera). This means that although the property may be transferred to another owner, mineral rights have been reserved or accepted. This exception will not impair the security of the loan unless it states that the owner of these rights has the right to use the surface of the land to drill for or to remove the items. If the legal exception reads "without the right of surface entry" no endorsement or waiver is required; if this phrase is missing, or if surface rights are implied the appropriate endorsement will be required.

**23.33**  
**SURVEY**  
**REQUIREMENTS**

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A Survey is a measurement of the boundaries of a parcel of land, its area, and sometimes its topography, as performed by an engineering company specialized in surveying.

In certain states, title companies rely on a Survey of the property for the issuance of certain endorsements and the removal of certain exceptions in the title policy.

Acra requires that the title policy not have a Survey exception.

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**23.34  
CONDOMINIUMS  
AND PUDS**

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The Title Insurance Policy covering a condominium and / or PUD may require the following:

**A. Legal Description**

The legal description may include all components of the unit estate as listed below:

- The name of the project;
- The condominium unit number;
- The undivided interest in the common elements;
- The nonexclusive easement to use the common areas and facilities; and
- Any significant limited common elements or exclusive easements over the common areas.

**B. Common Area Owned as Tenants-in-Common**

If the unit owners own the common area of the project as tenants in common, the policy must reflect that ownership. The policy may describe limited common elements or exclusive easements specifically or by reference to the constituent documents.

**C. Coverage**

The title insurance policy must protect against the following:

- Insuring that the mortgage is superior to any lien for unpaid common expense assessments;
- Insuring against any impairment or loss of title of our first or second lien caused by any past, present, or future violations of any covenants, conditions, or restrictions of the master deed for the project;
- Insuring that the unit does not encroach on another unit or on any of the common elements, areas, or facilities;
- Insuring that the mortgage is secured by a unit in a condominium project that has been created in compliance with the applicable enabling statutes;
- Insuring that real estate taxes are assessable and lienable only against the individual condominium unit and its undivided interest in the common elements, rather than against the project as a whole; and
- Insuring that the owner of a PUD unit is a member of the owners' association and that the membership is transferable if the unit is sold.

**D. Separately Owned Common Elements, Areas, and Facilities**

If the owners' association owns the common elements, areas or facilities of a project separately (or holds them in leasehold estate), we require title insurance on those areas to insure that ownership. The title must be free and clear of any objectionable liens and encumbrances, including any statutory or mechanics' liens for labor or material related to improvements on the common areas that began before the title policy was issued.

**E. Endorsements**

Acra requires special endorsements for condominium and PUD units. For condominiums, an ALTA 4 Endorsement or its equivalent is required and for PUDs, an ALTA 5 Endorsement or its equivalent is required. These endorsements must be attached to each policy or incorporated in the text of the policy.

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### 23.35 WATER STOCK

Water Stock is issued when the land is serviced by a private water company rather than by a municipal or city water company. A share of stock in the company is issued to each property owner and must be transferred at the time the property is sold to the new Borrower.

The original Water Stock Certificate and Assignment of Stock, showing Acra as pledge, must be obtained prior to closing on a property holding water stock.

### 23.36 TITLE EXCEPTIONS

#### A. Easements

An easement is an interest in the land of another, entitling the holder of the easement to a limited use or enjoyment of that land. Easements must be reviewed and located to determine if the use of those easements will in any way affect the building / property.

#### B. Unlocated Easements

When the easement listed contains the phrase "unlocated easements" or "affects said land", a 103.1 Endorsement referencing the specific item number on the Preliminary Title Report / Title Commitment must be ordered or an ALTA 9.

An easement is not unlocated if the Preliminary Title Report / Title Commitment states, "as set forth in document described" or "as shown on map of the tract" or something similar. If the easement is delineated on some document, a copy of the document(s) should be requested from the title officer for examination and a 103.3 Endorsement should be ordered or an ALTA 9.

#### C. Oversize Easements

When an easement listed is over twelve (12) feet, a 103.6 Endorsement or an ALTA 9 must be ordered referencing the specific item number on the prelim. A 103.5 Endorsement must be ordered if the easement is under thirty (30) feet.

NOTE: A copy of the "marked up" preliminary title report / title commitment should be kept in the file for comparison against the final title policy.

### 23.37 NON-PERMITTED TITLE EXCEPTIONS

Exceptions that that will result in a cloud on title and will not be covered by insurance must be cleared from title. Exceptions that must be cleared include, but are not limited to the following:

- Real estate taxes must reflect "not yet due and payable". Taxes on condominiums and PUDs can be assessable only against the unit and its undivided interest in the common areas, and not on the project as a whole;
- All judgments must be satisfied;
- All Federal tax liens, mechanic's liens, liens for unpaid child support, unpaid property taxes that are due and payable, or unpaid water and sewer fees must be satisfied;
- Additional mortgages not approved by Acra must be released;
- Third parties on title not disclosed on the application or approved by the applicants;
- Unsettled estates (if the subject property is in probate, a copy of the final settlement from the court for the property must be obtained);
- Lis Pendens;
- Life Estates;
- Notice of Defaults; and / or
- Notice of Condemnation for health and safety issues.



**23.38  
PERMITTED TITLE  
EXCEPTIONS**

The title policy may be subject to the following minor exceptions and impediments:

**A. Easements – Customary**

Customary public utility subsurface easements, as long as they do not interfere with the use and enjoyment of any present improvements on the mortgaged property or proposed improvements or extend under any buildings or other improvements that were in place and completely covered when the mortgage was originated.

**B. Easements – Above Surface**

Above surface public utility easements that extend along one or more of the property lines for distribution purposes or along the rear property line for drainage purposes, as long as they do not extend more than twelve (12) feet from the property lines and do not interfere with any of the buildings or improvement or with the use of the property itself.

**C. Easements – Mutual**

Mutual easements agreements that establish joint driveways or party walls constructed on the security property and on an adjoining property, as long as all future owners have unlimited and unrestricted use of them and the easement is recorded and no restrictions on transfer.

**D. Encroachments**

- Encroachments of one (1) foot or less on adjoining property by eaves of other overhanging projections or by driveways, as long as there is at least a ten (10) foot clearance between the buildings on the security property and the property line affected by the encroachment.
- Encroachments on adjoining properties by hedges or removable fences.
- Encroachments on the subject property by adjacent properties, as long as the encroachment is less than one (1) foot wide, fifty (50) square feet in total coverage, and does not touch the subject improvements and does not interfere with the use and enjoyment of the property not occupied by improvements.

**E. Minimum Dwelling Size**

Minimum dwelling size, setbacks, or building restrictions as long as their violation will not result in a forfeiture or revision of title or a lien of any kind for damages or have an adverse effect on the fair market value of the mortgaged property.

**F. Oil, Water, or Mineral Rights**

Outstanding oil, water, or mineral rights, as long as they do not materially alter the contour of the property or impair its value or usefulness for its intended purposes. These rights must not allow for surface entry and must be located below a depth of 500 feet.

**G. Variations**

Variations between the appraisal report and the records of possession regarding the length of the property lines, as long as the variations do not interfere with the current use of the improvements. And are within an acceptable range (for front property lines, a 2% variation is acceptable; for all other property lines, 5% is acceptable).

(Continued)

**23.38  
PERMITTED TITLE  
EXCEPTIONS  
(CONTINUED)**

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**H. Lawful Parties in Possession**

Rights of Lawful Parties in Possession as long as rights do not include the right of first refusal to purchase the property; no rights of parties in possession (including the term of a tenant's lease) may have a duration that exceeds more than two (2) years.

**I. Description of Area**

Minor discrepancies in the description of the area, as long as a Survey is obtained and affirmative title insurance against all loss or damage resulting from discrepancies.

**J. Native American (formerly "Indian") Claims**

Exceptions to Native American claims, as long as they are insured against all loss and damages from such claims.

**K. Bond Assessments**

Exceptions for bond assessments collected regularly for lighting, street repair, or sewer repair will be allowed.

**L. Covenants, Conditions, and Restrictions (CC&Rs)**

CC&Rs are limitations on the use of real property imposed by a previous owner of the property. The government may also impose limitations of the use of real property in the form of building codes, and zoning ordinances. If the owner violates a covenant or restriction, the person who imposed the limitations or anyone in the same subdivision under a general plan can enforce the covenant or restriction by suing for injunctive relief or by suing for damages.

**M. Mortgage Protection Clause**

A mortgage protection clause usually accompanies the CC&Rs, and provides the assurance that even if a right of reverter is enforced, it will not affect the deed of trust. As long as a mortgage is made in good faith and for value, the property will not revert to the original owner.

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**23.39**  
**TITLE**  
**ENDORSEMENTS**

Endorsements are additions to the title policy that expand the title insurance coverage, fulfilling specific requirements of the insured. Acra requires standard endorsements to the title policy on all loans and additional endorsements based on the loan or information in the Preliminary Title Report / Title Commitment. The Endorsement number may vary by state and title company. All endorsements may not be available in a specific state. Each title insurance policy must contain the following (as applicable):

**A. 8.1 – Environmental Protection Liens**

This endorsement is used for a loan that is secured by a Deed of Trust or Mortgage on property primarily used for residential purposes. It protects against loss or damage sustained by reason of loss of priority of the lien of the insured mortgage over any environmental protection liens recorded on public records or created according to certain state laws.

**B. CLTA 116 – Address or Location Endorsement**

This endorsement (if available for the state) provides specific coverage related to the address and type of improvement on the insured land. It also attests that the map attached to the policy shows the current location and dimensions of the land, as disclosed by records advising constructive notice.

NOTE: A plat map is required when the Address Endorsement is included in the policy.

**C. FF9 Endorsement**

Required for all properties located in Florida.

**D. ALTA 4.0 – Condominium Endorsement**

This endorsement provides coverage that the condominium estate is created in accordance with local laws. It also covers violations of covenants, conditions, and restrictions, as well as certain encroachment matters. This endorsement may be issued after review of the laws, the condominium map, and related documents indicates all of the listed assurances that can be given.

**E. ALTA 5.0 – Planned Unit Development Endorsement**

This endorsement insures against loss or damage due to violations of restrictive covenants, forfeiture or reversion provisions of restrictive covenants, assessments gaining priority over an insured mortgage, compelled removal of improvements due to encroachment, and failure of title by reason of a right of first refusal.

In order to consider issuance of an ALTA 5.0, the covenants must be reviewed for violations, forfeiture and reversion provisions, creation assessments and provisions subordinating them to mortgages, and any right of first refusal provisions. Further evidence as to encroachments, if any, of the improvements must also be provided.

**F. ALTA 6 – Variable Rate Mortgage Endorsement**

This endorsement protects against loss by reason of, among other things, the invalidity, loss of priority or lack of enforceability of the lien of the insured mortgage resulting from provisions which provide for changes in the rate of interest (for example: variable rate, convertible, renegotiable rate, adjustable rate, or shared appreciation mortgages).

(Continued)

**23.39  
TITLE  
ENDORSEMENTS  
(CONTINUED)**

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**G. ALTA 6.1 – Adjustable Rate Mortgage (ARM) Endorsement**

This endorsement is similar to the ALTA 6 Endorsement and is required for all ARM loans. It is issued in states where a lender must rely on a specific state act or federal preemption to override local state law in making the variable interest rate loan.

**H. ALTA 7.0 – Manufactured Housing Endorsement**

This endorsement is available to remove any doubts as to whether or not a manufactured housing unit or mobile home on the subject property is included in the policy coverage. It expands the definition of “land” as used in the policy to include the manufactured housing unit as real property.

Issuance of this endorsement relies on provisions in state laws allowing the manufactured housing unit to be converted into real property. If the conversion has been proper and if such unit is now being taxed as a real property improvement, the endorsement may be issued.

**I. ALTA 9 / CLTA Form 100 Comprehensive Endorsement**

This endorsement is designed as an explicit extension of coverage otherwise provided to insured lenders by the ALTA Loan Policy. ALTA 9 was developed to meet “off-record” occurrences. The endorsement extends the lender’s coverage in three general areas: (a) covenants, conditions, and restrictions; (b) encroachments; and (c) rights of others to use the surface of the land for mineral developments.

The title company may agree to attach the ALTA 9 Endorsement to an ALTA Loan Policy provided:

- The insured loan does not cover raw land;
- The loan is not for construction purposes; or
- Upon inspection, there are no title reasons why the coverage cannot be given.

NOTE: It is the practice of the title company to issue the endorsement only at the time of recording of the Deed of Trust or Mortgage. It is not to be issued at a later date, except with a new or reissue policy.

**J. CLTA Form 107.5 – Leasehold Endorsement 103.5 – Water Rights**

Provides insurance against loss due to damage to existing improvements on the land resulting from the use of the surface of the land in connection with the extraction or development of water, either accepted from the legal description of the property or shown as an exception.

Comments: Note that this protects from damage due to extraction of water not for water lines running across the property. A common write-up states “except all water and water rights in and under said land”. We are looking for “surface right of entry or water rights” to trigger the need for the endorsement.

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**V. HAZARD INSURANCE REQUIREMENTS**

### 23.40 HAZARD INSURANCE

Seller must provide Acra with an acceptable hazard insurance policy for the mortgage property where the Insured's Name and the Property Address must be identical to that shown on the Deed of Trust / Mortgage. All Hazard Insurance policies must comply with the following:

#### **A. Insurance Carrier Requirements**

The insurance company must be licensed to do business in the state in which the mortgage property is located.

The hazard insurer must at all times be rated B+ / IV in Best's Insurance Reports (or Lloyd's of London) and licensed or otherwise authorized by law to conduct business in the jurisdictions here the mortgaged property is located.

#### **B. Coverage Requirements**

The Policy must be written for a minimum of fire and special form coverage, which must cover all unit, garages, outbuildings, etcetera by direct mention of allowance in the policy.

The acceptable threshold for hazard insurance coverage must be equal to the lesser of (i) 100% of the insurable value of the improvements, as established by the property insurer (or Appraiser) using a Replacement Cost Estimator ("RCE"), or (ii) the unpaid principal balance of the mortgage, as long as it is at least equal to or greater than 80% of the insurable value of the improvement(s) on the RCE for damage or loss on a replacement cost basis. The RCE, if from the property insurer, must be issued within 30 calendar days of the file's funding, but may have been created at an earlier date.

Some states have passed regulations to protect insurance companies' potential proprietary logic where an insurance agent may decline to provide an RCE. In such event, a statement from the agent confirming coverage is "100% replacement cost" or similar assertion may be obtained. Statement from agent may be confirmed on the policy, in a letter from agent on letterhead, or in an email directly from agency (compared to the text being copied into another party's email or restated).

#### **C. Rent Loss**

Rent loss insurance covers rental losses that are incurred during the period that a property is being rehabilitated following a casualty. Rent loss insurance coverage is required on all one- to four-unit (1-4) non-owner occupied income properties. The policy must include coverage of at least six (6) months rental losses during property rehabilitation following a casualty. At minimum, coverage should be to the lesser of (a) PITIA or (b) rent received / scheduled.

#### **D. Effective Date**

The policy must be in effect on or before the date of funding.

#### **E. Policy Term**

Binders will be acceptable if they are valid for at least six (6) months from the date Seller funds the loan with evidence that the premiums have been paid as follows:

1. Purchase Transaction  
Prepaid for a full twelve (12) month policy.
2. Refinance Transaction  
Current policy must have a remaining term of at least six (6) months.

#### **F. Deductible**

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The deductible clause may not exceed the lower of \$5,000 or 2.5% of the amount of coverage. The deductible clause may apply to either fire or extended coverage or to both.

(Continued)

**23.40  
HAZARD  
INSURANCE  
(CONTINUED)**

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**G. Mortgagee Clause; Endorsement**

Each hazard insurance policy must contain or have attached the standard mortgagee clause, or, if unavailable, the standard mortgagee clause commonly accepted by private institutional mortgage investors in the area where the mortgaged properties are located. The mortgagee clause must provide that the insurer notifies CSC at least thirty (30) days before the effective date of any termination, reduction, or cancellation of the policy and any and all checks for claims should be made out in the name of the Lender and Borrower.

The mortgagee clause must be properly endorsed, necessary notices of transfer must be given, and any other necessary action must be taken as reasonably requested by CSC, in order to protect the interest of CSC as first mortgagee under the terms of the policy and applicable law.

**H. Lender's Loss Payable**

Seller must cause all insurance drafts, notices policies invoices, and all other similar documents to be delivered directly to CSC. The policy must contain a Lenders Loss Payable in favor of Seller its successors and / or assigns.

**I. Condominium Insurance Requirements**

A copy of the current insurance declaration page is required for condominiums verifying blanket coverage for full replacement of the subject unit as well as all other project improvements. The maximum deductible is ten thousand dollars (\$10,000). All Insurance Policies must comply with the following:

- If the master or blanket policy insurance policy maintained by an HOA for a condominium project does not cover either the interior of the condo unit or the improvements made by the borrower to the interior of the condo unit, an HO-6 policy must be obtained.
- If an HO-6 policy is required, the insurance policy must provide coverage, as determined by the insurer, sufficient to repair the condo unit to at least its condition prior to a loss event.
- Acceptable types of HOA master or blanket insurance policies include:
  - "Single Entity",
  - "All-in", and
  - "Bare walls".

The policy must cover of the general and limited common elements that are normally included in coverage, including fixtures, building service equipment, and common personal property, and supplies belonging to the HOA.

**J. Multi-Peril Policy**

A policy covering the entire condominium project is required, providing, at a minimum, fire and extended coverage and all other coverage in the kinds and amounts commonly required by private institutional mortgage investors for projects similar in construction location, and use. Coverage must be on a replacement cost basis for at least 100% of the insurable value based on replacement cost.

(Continued)

**23.40  
HAZARD  
INSURANCE  
(CONTINUED)****K. Mortgagee Clause**

Each policy must contain the standard mortgagee clause endorsed to provide that any proceeds paid to the Association of Owners of the Condominium Project for the use and benefit of mortgagees as their interest may appear, or otherwise endorsed to fully protect the interest of the Lender.

**L. Fidelity Insurance**

The policy must include Condominium Owners' Association Fidelity coverage against dishonest acts on the part of directors, managers, trustee, employees, or volunteers responsible for handling funds belonging to or administered by the Condominium Owners' Association.

**M. Public Liability Insurance**

The Condominium Owners' Association must have a comprehensive policy of public liability insurance covering all of the common elements, commercial spaces, and public ways in the condominium project. The insurance policy must contain a severability of interest endorsement precluding the insurer from denying the claim of a condominium unit owner because of negligent acts of the condominium owners' association or other unit owners. Liability coverage must be for at least \$1 million per occurrence for personal injury and / or property damage.

**N. PUD Hazard Insurance Requirements**

PUD units require both individual unit coverage as shown for one- to four-units (1-4), unless a blanket policy insures replacement of individual units as indicated for condominiums, including, blanket replacement coverage for the common areas and improvements.

**1. Blanket Insurance**

In lieu of maintaining an individual hazard policy on each PUD unit, the PUD corporation, homeowners' association or trust may maintain blanket hazard insurance providing fire and extended coverage and all other coverage in the kinds and amounts commonly required by private institutional mortgage investors for developments similar in construction, location and use, but in any event in an amount not less than the full replacement value of all of the PUD units without deduction for depreciation or coinsurance, including the structural portions and fixtures owned by the PUD unit owners. Insurance premiums from any blanket insurance coverage must be included in the regular common assessments of the PUD unit owners. The coverage must name the PUD corporation, homeowners' association, or trust as the insured for the benefit of the PUD unit owners.

**2. Common Property Coverage**

The PUD corporation, homeowners' association, or trust must have fire and extended coverage in an amount not less than the replacement cost of the insurable PUD common property. The insurance must name the PUD corporation, homeowners' association or trust as the insured for the benefit of the PUD unit owners. No mortgage clause in favor of the PUD unit mortgagees is required by the Lender on insurance covering common property.

(Continued)



**23.40**  
**HAZARD**  
**INSURANCE**  
**(CONTINUED)**

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**3. Public Liability Insurance**

The PUD Owners' Association must have a comprehensive policy of public liability insurance covering all of the common elements, commercial spaces, and public ways in the condominium project. The insurance policy must contain a severability of interest endorsement precluding the insurer from denying the claim of a condominium unit owner because of negligent acts of the condominium owners' association or other unit owners. Liability coverage must be for at least \$1 million per occurrence for personal injury and / or property damage.

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**VI. FLOOD INSURANCE REQUIREMENTS****23.41  
FLOOD  
INSURANCE**

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The Flood Disaster Protection Act (FDPA) requires that lenders maintain procedures for mandatory flood insurance notification and coverage requirements as set forth in cooperation with the Federal Emergency Management Agency (FEMA). Flood insurance must comply with the following:

**A. Flood Zone Determination**

A Flood Zone Certification is required to verify the flood zone determination.

**B. Flood Zones Requiring Insurance**

A, AE, AH, AO, AR, A1-A30, A99, V, VE, V1-V30, VO

**C. Flood Zones Not Requiring Insurance**

X, D, E, M, B, C

Mortgaged properties located in participating communities require flood insurance for all structures that lie within an area identified by FEMA as being in a special Flood Hazard Area (Flood Zone). If the principal resident is not located in the flood zone, and the outbuildings (i.e.: detached garages, sheds, barns, greenhouses) are and they are part of the security, flood insurance is required. If Seller does not provide a Life of Loan flood certification from an acceptable and transferable company, there will be an additional charge at purchase.

**D. Required Flood Insurance Coverage**

Seller must ensure that flood insurance is maintained and that it provides coverage at least equivalent to that provided under the National Flood Insurance Program (NFIP) in an amount equal to the lesser of the following:

1. The maximum available under the NFIP's regular program;
2. The maximum available under the NFIP's emergency program if the regular program is not yet in effect in the area where the mortgaged property is located; or
3. The minimum amount required under the terms of coverage to compensate for any damage or loss on a replacement cost basis, or the unpaid balance of the mortgage loan if replacement cost compensation is not available for the type of building insured.

Seller may waive the flood insurance requirement if:

1. A portion of the land is in a Special Flood Hazard Area but the improvements are not; or
2. The Borrower has provided Seller with a Letter of Map Amendment from FEMA excluding the improvements or the entire mortgaged property from a Special Flood Hazard Area; or
3. Seller may either provide an "evidence" of insurance or a fully executed flood insurance application and a paid receipt for the annual premium.

**E. Non-Participating Communities**

Acra will not purchase loans secured by properties in non-participating communities.

(Continued)

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**23.41  
FLOOD  
INSURANCE  
(CONTINUED)**

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**F. Effective Date**

The policy must be in effect on or before the date of funding.

**G. Policy Term**

Binders will be acceptable if they are valid for at least ninety (90) days from the date Seller funds the loan with evidence that the premiums have been paid. The policy term must be a minimum of one (1) year or continuous until canceled.

**H. Deductible**

The deductible clause may not exceed the lower of \$2,500 or 1% of the amount of coverage.

**I. Applicant Flood Zone Notification**

Seller must notify the applicant:

- Whether the property is located in a Special Flood Hazard Area;
- If the community is participating in the National Flood Insurance Program; or
- Whether Federal Disaster Assistance for flood related damage to structures will be available.

The "Notice to Borrower of Flood Hazard Determination", informing the Borrower that their property is located in a Flood Zone requiring Flood Insurance, must be sent to the Borrower within a reasonable amount of time prior to loan funding and it must be signed by the applicant(s) before or at closing.

**J. Condominium / PUD Flood Insurance Coverage**

Verification of Residential Condominium Building Association Policy is required for each building located in a Special Flood Hazard Area. The policy must provide 100% coverage for all common areas and contents that are owned in common by the unit owners.

The policy must cover each individual unit by \$250,000 or the replacement costs, whichever is less or the maximum amount available for condominium projects from the NFIP.

If the owners' association does not maintain a building policy, a separate policy must be obtained for the individual unit(s).

The maximum deductible allowed is \$10,000 or 1% of the policy face amount, whichever is less.

PUD units require individual unit coverage, unless a blanket insures replacement of individual units, including blanket replacement coverage for the common areas.

**K. Lender's Loss Payable**

Seller must cause all insurance drafts, notices policies invoices and all other similar documents to be delivered directly to CSC. The policy must contain a Lender's Loss Payable in favor of Seller its successors and / or assigns.

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# SECTION 24 – LOAN DELIVERY & PURCHASE

## I. GENERAL REQUIREMENTS

<b>24.1 PRICE SHEETS</b>	Acra periodically issues price sheets indicating the note rates, margins, lifetime rate caps, and lifetime rate floors for which Acra buys mortgage loans at par. The price sheets also indicate adjustments to par rates and margins that are made based on the characteristics and terms of a mortgage loan. Pricing is subject to change without notice.
<b>24.2 PRELIMINARY LOAN PURCHASE APPROVAL (PLPA)</b>	Upon review of a credit file, Acra issues a Preliminary Loan Purchase Approval (PLPA) setting forth the terms of the pre-purchase approval. The PLPA is sent to Seller electronically. Mortgage loans must meet all the requirements of the Guide, the program announcement, and the PLPA. The complete credit file and the mortgage document file for such mortgage loans must be delivered to Acra on or before the PLPA expiration date.
<b>24.3 REVIEW OF MORTGAGE DOCUMENTS</b>	Acra will promptly review each credit file and mortgage document file and notify Seller of any deficiencies. In the event Seller has submitted the completed credit file and mortgage document file by the PLPA expiration date, Acra may advise Seller of the conditions, if any, under which Acra will issue a new expiration date. In the event Acra is unable or unwilling in its sole discretion, to purchase a file or upon Seller's request, Acra will promptly return to Seller any credit files and mortgage document Files for mortgage loans determined ineligible for purchase.
<b>24.4 SUBSEQUENT INFORMATION</b>	Seller will promptly bring to Acra's attention any information or knowledge that comes to Seller's attention or possession which relates to a Loan applicant, mortgaged property, or any aspects of the Loan that reasonably could be expected to be a relevant consideration in Acra's decision to purchase a Loan including, without limitation, discrepancies between information provided by the Loan applicant and that obtained from other sources, factors bearing on the physical condition of the mortgaged property, and any irregularities involving a purchase or refinance transaction covering the mortgaged property or the relationship or involvement of any brokers or escrow depositories in connection therewith.
<b>24.5 CORRECTIONS</b>	Seller may make corrections for mortgage loan determined by Acra to be ineligible for purchase, provided the corrections are delivered to Acra on or before the related PLPA expiration date. Acra will review corrections in accordance with this chapter.

**24.6**  
**FLOW MORTGAGE**  
**LOAN**  
**SUBMISSIONS**

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**Process for Flow Purchase Due Diligence and Credit File Submission**

1. The complete credit file, accompanied by a Loan Intake Checklist (Exhibit 6) and is submitted to Acra for review. Acra Intake will review each file for completeness and perform a compliance and fraud check. An incomplete submission notice may be issued if the file has any issues.
  2. Acra reviews the accuracy of Seller's underwriting to Acra's guidelines.
  3. In the event there are significant underwriting issues, Seller will be contacted for a clarification / explanation of the issue(s) in question and file may be suspended.
  4. Acra will review the credit file promptly. If Acra approves the decision by the Seller, in its sole and absolute discretion, Acra will issue to Seller a PLPA which provides such details as the mortgage loan amount, loan-to-value ratio, credit risk grade, product type and mortgaged property type, also included are any conditions that must be satisfied prior to Acra's purchase of the mortgage loan.
  5. In the event there are changes that occur in the proposed mortgage loan terms after the PLPA is issued, an amended approval and revised PLPA is provided to Seller.
  6. Seller closes the mortgage loan and ships any outstanding underwriting conditions and the mortgage document file to Acra. Piecemeal conditions will not be acceptable.
  7. Acra will review any outstanding underwriting conditions received and will review the Mortgage document file. Acra will issue to Seller a PLPA which provides such details as any remaining outstanding underwriting conditions and any conditions required as a result of the mortgage document file review by the purchasing department.
  8. Provided all conditions and mortgage documents are present, a "PLPA Confirmation" providing Seller with the proposed purchase price for each mortgage loan will be forwarded to Seller. This purchase schedule must be approved, signed and emailed back to Acra prior to the release of any funds.
  9. Funds are wired upon receipt of the approved and signed purchase schedule from Seller, provided all documents, including compliance documents, are present and have been completed correctly and all of the other conditions for purchase set forth in the PLPA have been met.
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### 24.7

#### CLOSED

#### MORTGAGE LOAN SUBMISSIONS

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#### Process for Closed Loan Submission

1. Seller closes and funds the mortgage loan and ships the Loan Summary Transmittal, credit file, and mortgage document file to Acra.
  2. Acra reviews the accuracy of Seller's underwriting to Acra guidelines.
  3. In the event there are significant underwriting issues, Seller will be contacted for a clarification / explanation of the issue(s) in question.
  4. Acra will review the credit file promptly. If Acra approves the credit file, in its sole and absolute discretion, Acra will issue to Seller a PLPA, which provides such details as the mortgage loan amount, loan-to-value ratio, credit risk grade, product type, and mortgaged property type, also included are any conditions that must be satisfied prior to Acra's purchase of the mortgage loan.
  5. In the event there are changes that occur in the proposed mortgage loan terms after the PLPA is issued, an amended approval and revised PLPA is provided to Seller.
  6. Acra will review the Mortgage document file. Acra will issue to Seller a "Three Day Notice of Purchase and Request for Outstanding Conditions" which provides such details as any outstanding underwriting conditions listed on the PLPA and any conditions required as a result of the mortgage document file review by the funding department.
  7. Provided all conditions and mortgage documents are present, a "Purchase Schedule" providing Seller with the proposed purchase price for each mortgage loan will be faxed to Seller. This purchase schedule must be approved, signed and faxed back to Acra prior to the release of any funds.
  8. Funds are wired upon receipt of the approved and signed purchase schedule from Seller, provided all documents, including compliance documents, are present and have been completed correctly and all of the other conditions for purchase set forth in the PLPA have been met.
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### II. PURCHASE & FINAL DELIVERY

#### 24.8 CONDITIONS FOR PURCHASE

Acra will pay the purchase proceeds for any mortgage loan upon the following conditions:

1. Acra receives on or before the PLPA expiration date the complete credit file and mortgage document file;
2. The delivered documents comply with the requirements of the Guide, the program announcement, the PLPA and the CLA expiration date;
3. The representations and warranties made by Seller pursuant to the Guide, the Mortgage Loan Purchase Agreement, and any Bid Confirmation Letter or Lock Confirmation, are accurate and complete in all respects as of purchase date;
4. Seller is in compliance with all covenants and agreements binding upon it pursuant to the Guide and the Mortgage Loan Purchase Agreement and any Bid Confirmation Letter or Lock Confirmation, and
5. Seller is neither suspended nor has Seller been terminated by Acra.

Acra's purchase of mortgage loans will not operate as a waiver of any of these conditions.

#### 24.9 PURCHASE OF MORTGAGE LOANS

##### Payment by Acra

Subject to the conditions set forth above, Acra will pay on the Purchase Date, which date will be determined by Acra in its sole discretion, the purchase proceeds for the Mortgage Loan by wire transfer in immediately available funds either (a) to the account designated in the Bailee Letter accompanying the Mortgage Note or (b) if no Bailee Letter accompanies the Mortgage Note, to the account designated by the Seller in Seller's wire instructions, which shall be provided on Seller's letterhead and signed by an authorized officer of Seller.

#### 24.10 PURCHASE CALCULATIONS

##### Purchase Price

The Purchase Price will be the price reflected in the Purchase Advice for the related Mortgage Loan.

##### Purchase Proceeds

Purchase proceeds will be the amount determined by applying the purchase price to the outstanding principal balance, plus or minus, accrued interest, and less any applicable charges such as, but not limited to, administration fees, recording fees, tax service contract fee or life-of-loan flood certification fee.

#### 24.11 FINAL DOCUMENT DELIVERY

All original documents which are required to be delivered to Acra under the terms of this Guide but which are not submitted to Acra prior to the purchase date must be submitted by Seller to Acra within one hundred and twenty (120) days after the purchase date. All final document deliveries will consist of the original document(s) and a complete original document transmittal for the documents delivered for each mortgage loan. Seller is encouraged to deliver all final documents for each mortgage loan as one submission unless this will cause an untimely delay because a single document is holding up the delivery of the balance of the documents.

### **24.12 DOCUMENTS**

The following original documents must be submitted for each mortgage loan within one hundred and twenty (120) days after the purchase date, as applicable:

1. Original recorded Deed of Trust / Mortgage and any required riders or addenda together with the originals of any assumption or modification agreements, and any written assurance, substitution, surety, or guaranty agreements;
2. Original recorded Mortgage Assignment to CSC;
3. Original recorded intervening Mortgage Assignments, if any;
4. Original final Lender's Title Insurance Policy and any required waiver(s);
5. Original recorded Power of Attorney; and
6. Any other original documents as may be specified in this Guide, the Program announcement, or reasonably requested by Acra.

To ensure timely processing, documents should be delivered to Acra's mailing address as listed on page 1 of "Section 1 – Introduction" of this Guide.

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**SECTION 25 – TRANSFER OF OWNERSHIP & SERVICING****25.1  
TRANSFER OF  
OWNERSHIP**

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All the right, title and interest of Seller in and to the mortgage loans purchased including, but not limited to, all servicing rights, all rights to prepayment penalties, and all rights of Seller under any insurance policy related in any way to the mortgage loan will transfer to CSC as of the purchase date.

In addition, as of the purchase date, ownership of each mortgage note, the mortgage and contents of the related credit file and mortgage document file will be vested in CSC and the ownership of all records and documents with respect to the related mortgage loan prepared by or that come into possession of Seller shall immediately vest in CSC and shall be retained and maintained, to the extent permitted by the Guide, in trust, by Seller at the will of Acra in a custodial capacity only. Seller's records shall accurately reflect the sale of each Loan to CSC.

After the purchase date but prior to the servicing transfer date, Seller agrees that it will remit to CSC, within 48 hours after receipt, the following payments and collections:

- All payments on account of principal, including principal prepayments, on the mortgage loans;
- All payments on account of interest on the mortgage loans; and
- All late payment charges and bad check charges.

All payments received prior to or after the Servicing Transfer Date must be sent to CSC at the following address, identifying CSC's loan number if available or Seller's current loan number:

Citadel Servicing Corporation  
Attention: Loan Servicing  
25531 Commercentre Drive, Suite 160  
Lake Forest, CA 92630

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**25.2  
SERVICING AFTER  
THE PURCHASE  
DATE****A. Notifications**

Immediately upon being notified of the purchase of a mortgage loan, Seller shall send all notices required pursuant to this Section. The form of the notices is subject to approval by CSC.

Seller and CSC shall each comply with, and Seller shall assist CSC in complying with, the notice requirements of the Cranston Gonzalez National Affordable Housing Act of 1990. Seller's compliance will include sending on the purchase date servicing transfer letter at its sole expense. Seller's notice to each Borrower shall state that any payments due from the Mortgagor that are due after the servicing transfer date, shall be made to CSC in care of the designated servicer. Seller's assistance to CSC shall include providing CSC with any information Seller has or has access to, and that CSC reasonably requires to complete its notices.

Seller shall at its expense transmit to the requisite taxing authorities, insurance carriers and / or agents, notification of the assignment of the servicing rights, and instructions to deliver all notices, tax bills, and insurance statements, after the servicing transfer date, to CSC in care of the designated servicer.

The mortgagee clause should read:

Citadel Servicing Corporation  
its Successors and / or Assigns  
25531 Commercentre Drive, Suite 160  
Lake Forest, CA 92630

**B. Further Assurances**

Seller will execute and deliver all other instruments that may reasonably be requested by CSC in order to perfect the sale of servicing rights.

**25.3  
CONTINUED  
SERVICING**

Seller shall continue servicing the mortgage loans to be sold on each purchase date until the servicing transfer date, unless otherwise agreed to in writing by CSC and Seller, on Seller's system in conformance with all of the requirements in the credit file and mortgage document file, accepted servicing practices, the Guide, and applicable law.

Seller shall make note rate adjustments for each mortgage loan in compliance with the requirements of the related mortgage and mortgage note and shall execute and deliver the notices required by each mortgage and mortgage note regarding note rate adjustments. Seller shall execute and deliver all notices required for note rate adjustment scheduled to occur up to ten (10) days after the servicing transfer date.

Continuously during the period between the purchase date and the servicing transfer date, Seller will proceed diligently to collect all payments due under each of the mortgage loans when the same shall become due and payable including any payments required to be collected for annual ground rents, taxes, assessments, water rates, municipal charges, condominium charges, fire and hazard insurance premiums, mortgage insurance premiums, and all other charges to the end that the installments payable by the Borrowers will be sufficient to pay such charges as and when they become due and payable.

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**25.4**  
**Non-**  
**SOLICITATION**

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From and after the Funding Date, and continuing for a period of three (3) years from the date of the Sale of the Loan, Seller agrees that it will not take any action or permit or cause any action to be taken by Seller, any of its agents or Seller controlled affiliates, or by any independent contractors on Seller's behalf, to personally, by telephone or mail, solicit the Mortgagor under any Mortgage Loan to refinance the Mortgage Loan, in whole or in part, without the prior written consent of Acra. It is understood and agreed that all rights and benefits relating to the solicitation of any Mortgagors to refinance any Mortgage Loans and the attendant rights, title and interest in and to the list of such Mortgagors and data relating to their Mortgages (including insurance renewal dates) shall be transferred to CSC pursuant hereto on the Funding Date and Seller shall take no action to undermine these rights and benefits. Notwithstanding the foregoing, it is understood and agreed that promotions undertaken by Seller or any Seller controlled affiliate of Seller which are directed to the general public at large, or segments thereof, provided that no segment shall consist primarily of the Mortgage Loans, including, without limitation, mass mailing based on commercially acquired mailing lists, newspaper, radio and television advertisements, shall not constitute solicitation.

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**EXHIBITS TO ACRA'S SELLER GUIDE**

<b>NOTICE OF ASSIGNMENT, SALE OR TRANSFER OF SERVICING RIGHTS .....</b>	<b>167-168</b>
<b>SERVICING TRANSFER LETTER (SAMPLE) .....</b>	<b>169</b>
<b>HOA CERTIFICATION .....</b>	<b>170</b>
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[Seller Letterhead]

Date: [\_\_\_\_]  
[Borrower Name]  
[Borrower Mailing Address]  
[Borrower City, State Zip]

**NOTICE OF ASSIGNMENT, SALE OR TRANSFER OF SERVICING RIGHTS**

You are hereby notified that the servicing of your mortgage loan, that is, the right to collect payments from you, is being assigned, sold or transferred to Citadel Servicing Corporation, effective [Date].

The assignment, sale or transfer of the servicing of the mortgage loan does not affect any term or condition of the mortgage instruments, other than terms directly related to servicing of your loan.

Except in limited circumstances, the law requires that your present servicer send you this notice no later than fifteen (15) days before the effective date of transfer or at closing. Your new servicer must also send you this notice no later than fifteen (15) days after this effective date, or at closing.

Your present servicer is [Current Servicer Name]. If you have any questions relating to the transfer of servicing from your present servicer, call during business hours between 8:00 a.m. and 5:00 p.m. Monday through Friday. The toll free telephone number for loan servicing is [Current Servicer's Toll Free Phone Number].

Your new servicer is: Citadel Servicing Corporation

Business Address: Attention: Loan Servicing

25531 Commercentre Drive, Suite 160

Lake Forest, CA 92630

Mail Payments To: Attention: Payment Processing

Citadel Servicing Corporation

25531 Commercentre Drive, Suite 160

Lake Forest, CA 92630

If you have any questions relating to the transfer of servicing to Citadel Servicing Corporation, your new servicer, call their Customer Service Department toll free at (888) 800-7661, between 8:00 a.m. and 5:00 p.m. (Pacific Time Zone) Monday through Friday.

The date that your present servicer will stop accepting payments from you is [Servicing Transfer Date].

The date that your new servicer will start accepting payments from you is [Servicing Transfer Date]. Send all payments due on or after this date to your new servicer.

The transfer of servicing rights may affect the terms of or the continued availability of mortgage life or disability insurance or any other type of option insurance. You should contact the insurance carrier directly to maintain continued coverage of any optional insurance, or contact your new servicer at the written correspondence address or toll-free number noted above regarding the availability of comparable coverage.

You should be aware of the following information, which is described in more detail in Section 6 of RESPA (12 U.S.C. 2605).

[Seller Letterhead]

During the 60-day period following the effective date of the transfer of loan servicing, a loan payment received by your old loan servicer before its due date may not be treated by the new loan servicer as late, and a late fee may not be imposed upon you.

Section 6 of RESPA (12 U.S.C. 2605) gives certain consumer rights. If you send a “qualified written request” to your servicer concerning the servicing of your loan, your servicer must provide you with a written acknowledgement within twenty (20) business days of receipt of your request. A “qualified written request” is a written correspondence, other than a notice on a payment coupon or other payment medium supplied by the servicer, which includes your name and account number and the reason for the request.

Not later than 60 business days after receiving your request, your servicer must make appropriate corrections to your account and must provide you with a written clarification regarding any dispute(s). During the next sixty (60) business day period, your servicer may not provide information to a consumer reporting agency concerning any overdue payment related to such period or qualified written request. However, this does not prevent their servicer from initiating foreclosure if proper grounds exist under the mortgage documents.

A business day is a day in which the offices of the business entity are open to the public for normal business functions.

Section 6 of RESPA also provides for damages and costs for individuals or classes of individuals in circumstances where servicers are shown to have violated their requirements of that Section. You should seek legal advice if you believe your rights have been violated.

[Seller Letterhead]

[Date]

[Insurance Company Name]

[Mailing Address]

[City, State Zip]

**RE:    CSC Loan Number:**            [    ] \_\_\_\_\_  
**Policy Number:**                        [    ] \_\_\_\_\_  
**Insured / Borrower's Name:**        [    ] \_\_\_\_\_  
**Property Address:**                    [    ] \_\_\_\_\_  
**Property City, State Zip:**            [    ] \_\_\_\_\_

Dear Sir or Madam:

Please be advised that the servicing on the above referenced loan is being transferred to the following servicer. Please change the mortgagee clause to read as follows:

\_\_\_\_\_  
Citadel Servicing Corporation  
\_\_\_\_\_  
Its Successors and / or Assigns  
\_\_\_\_\_  
25531 Commercentre Drive, Suite 160  
\_\_\_\_\_  
Lake Forest, CA 92630  
\_\_\_\_\_

Forward all future correspondence, including refunds and lost drafts to Citadel Servicing Corporation at the following mailing address:

\_\_\_\_\_  
Attention: Loan Servicing  
\_\_\_\_\_  
Citadel Servicing Corporation  
\_\_\_\_\_  
25531 Commercentre Drive, Suite 160  
\_\_\_\_\_  
Lake Forest, CA 92630  
\_\_\_\_\_

Thank you for your prompt response in complying with this request.

Sincerely,

## HOA CERTIFICATION

### BORROWER INFORMATION

Borrower Name
Subject Property Address
Project Legal Name

### PLEASE COMPLETE THE FOLLOWING INFORMATION

1.	Monthly HOA Dues Per Unit, if variable provide range and identify subject exact dues	
2.	Total # of Units in Project	
	Total # of Units Sold (i.e.: Closed Escrow excluding Under Contract)	
	Total # of Units Delinquent on HOA Dues greater than 30 days	
	Total # of Units Owner-occupied	
	Total # of Units Non-owner-occupied	
3.	Was the Project Created by Conversion of an Existing Building?	<input type="checkbox"/> Yes <input type="checkbox"/> No
	If Yes, What Year was Conversion Completed?	Year: _____
4.	Has the Developer Turned the Association Over to the Owners?	<input type="checkbox"/> Yes <input type="checkbox"/> No
5.	Is there any Pending Litigation Against the Project?	<input type="checkbox"/> Yes <input type="checkbox"/> No
	If Yes, Provide Details (such as case name, case number, etcetera) and Attorney's Opinion Letter (if applicable).	
6.	Is Subject Property Delinquent on HOA Dues?	<input type="checkbox"/> Yes <input type="checkbox"/> No
	If Yes, How Many Months?	Months: _____
7.	Is Written consent / approval required from the Board of Directors of project in regard to the sale of this property to proposed borrower / purchaser listed above?	<input type="checkbox"/> Yes <input type="checkbox"/> No
8.	Does property have co-ownership or is property a Co-Op?	<input type="checkbox"/> Yes <input type="checkbox"/> No

### INSURANCE INFORMATION

Company	
Agent	Phone
Policy Number	

### CERTIFICATION

I hereby certify that the information provided herein is true and correct to the best of my knowledge.

Print Name and Title of HOA Representative	Phone
Signature	Date



[Seller Letterhead]

Date:

[Borrower Name]  
[Borrower Mailing Address]  
[Borrower City, State Zip]

Dear [Borrower Name]:

Congratulations on your new home loan!

As previously notified, the servicing of your loan has been transferred to Citadel Servicing Corporation. If your first payment should become due prior to receiving a Billing Coupon, please mail the Payment Notice (below) along with your remittance (in the form of check or money order) to the address below.

If you have any questions regarding your account, please contact your new servicer at:

Attention: Loan Servicing  
Citadel Servicing Corporation  
25531 Commercentre Drive, Suite 160  
Lake Forest, CA 92630

If you have any questions relating to the transfer of servicing to Citadel Servicing Corporation, your new servicer, call their Customer Service Department toll free at (888) 800-7661 between 8:00 a.m. and 5:00 p.m. (Pacific Time Zone) Monday through Friday.

Sincerely,

✂ ----- (please cut along line) -----

**Payment Notice**

Borrower Name: \_\_\_\_\_

Property Address: \_\_\_\_\_

\_\_\_\_\_

Payment Amount: \_\_\_\_\_ Date Payment Due: \_\_\_\_\_

Mail check or money order, payable to Citadel Servicing Corporation at:

Attention: Payment Processing  
Citadel Servicing Corporation  
25531 Commercentre Drive, Suite 160  
Lake Forest, CA 92630



25531 Commercentre Drive, Suite 160  
Lake Forest, CA 92630

**DOCUMENT TRANSMITTAL**

**SELLER NAME:** \_\_\_\_\_

**BORROWER:** \_\_\_\_\_

**SELLER ID #:** \_\_\_\_\_ **CSC LOAN #:** \_\_\_\_\_

**The following original items are attached:**

- ☐ Original recorded Deed of Trust or Mortgage with Riders
- ☐ Modification and/or Assumption Agreements
- ☐ Original recorded Intervening Corporate Assignment (Mortgage Assignment)
- ☐ Original Final Title Policy and any required waiver
- ☐ Original recorded Power of Attorney or copy certified County Recorder
- ☐ Other (specify) \_\_\_\_\_
- ☐ Other (specify) \_\_\_\_\_
- ☐ Other (specify) \_\_\_\_\_
- ☐ Other (specify) \_\_\_\_\_
- ☐ Other (specify) \_\_\_\_\_

**For timely processing, please deliver to:**

Attn: Document Control  
Citadel Servicing Corporation  
15707 Rockfield Boulevard, Suite 320  
Irvine, CA 92618

CORRESPONDENT LOAN INTAKE CHECKLIST

SELLER NAME				Seller Loan #			
Borrower(s) Name:				Submission Date:			
Address:				Seller Primary Contact:			
City, ST Zip				Seller UW Contact:			
State:				Phone:			
Zip:				Seller UW E-Mail:			
Program:		Non-Prime	Credit Grade:	Prop. Type		Occupancy:	0/0 N/0/0
LTV:			CLTV:	Term:	5/1, 7/1, or 30 Yr Fixed	Full Doc	
Loan Amount			Purch Price	Appraised Value \$:		# Month Bank Statement(s)	
Primary Wage Earner Middle Score			DTI:	Qual. Rate:		Margin:	
Con d #	Underwriting / Prior to Purchase Conditions Please mark with "yes" or "X" if document is included					Included	Needed
1	Correspondent Seller's Loan Approval						
2	Initial 1003 Complete, Signed, Dated by Borrower(s) and Loan Officer						
3	NMLS (Loan Officer, Company, Branch - must match 1003)						
4	Underwriting worksheet with detailed ATR calculations						
5	3.2 file or similar version						
6	1008 with detailed explanation of the "story" on the loan						
7	CREDIT						
8	Tri Merge Credit Report for Borrower <60 days old						
9	Tri Merge Credit Report for Co- Borrower < 60 days old						
10	Credit Supplement (VOM, VOR)						
11	Legible, Driver's License / SS Cards for each borrower						
12	Completed Patriot Act Verification Form						
13	Life Event Documentation: FCL; BK; SS; Loan Mod; (including all schedules and discharge)						
14	LOE Derog (signed and dated original letter of explanation for derogatory items)						
15	Divorce Decree (including dissolution & property settlement – recorded copy)						
16	Landlord Rating, VOR or 12 months cancelled checks (front & back). If living "rent free" 1003 must reflect this.						
17	Updated Credit Report (expired on: _____)						
18	Bankruptcy Papers (including all schedules and discharge)						
19	Bankruptcy Trustee Discharge and 12 Month Payment History						
20	Chapter 13 Trustee Payment History						
21	Student Loans (evidence loans in 24-month deferment)						
22	Proof of Paid in Full for:						
23	Demand(s) for:						
24	Written Mortgage Rating (12 months) for: through:						
25	INCOME FULL DOC (not required on bank statement loans)						
26	Most Recent Paycheck Stubs with YTD Earnings						
27	W2s for most recent two years						
28	Rental Agreements (signed) <b>AND</b> Sch E from 1040's to support rental income <b>(Sch E ONLY)</b> when using W2 & paystub full doc						
29	Child Support / Alimony (six months receipt of income)						
30	<b>Self Employed ONLY</b> YTD Profit & Loss (signed & dated) and three months bank statements to support income (most recent)						

CORRESPONDENT LOAN INTAKE CHECKLIST

31	<b>Self Employed ONLY</b> Last two years of 1040s / 1120s / 1065s / K1s		
32	<b>INCOME - Alt Doc for Self Employed (12 months bank statements)</b>		
33	Bank Statement Analysis - Bank Statement loans only		
34	Business Bank Statements – 12 Months – All Pages, Self Employed only		
35	Personal Bank Statements – 12 Months – All Pages, Self Employed only		
36	Business License (2 years current)		
37	Evidence of Self Employment (2 years ownership) (if 1 year ownership must go full doc)		
38	<b>ASSETS</b>		
39	Reserves documentation per program guidelines completed VOD		
40	VOD with current & 2 months average balance <b>or</b> most recent 2 months personal bank statements (all pages) evidence of <b>Cash to Close</b>		
41	Large value deposit LOE		
42	Assets Depletion Calculation and Worksheet (per program guidelines) If using for DTI purpose		
43	<b>PURCHASE MONEY TRANSACTIONS (if applicable)</b>		
44	Fully executed Purchase Agreement, including counter offers and addendums, signed by all parties		
45	Earnest Money Deposit; issuance and receipt documentation and CLEARANCE - cleared check or wire receipt		
46	Termite Report/Clearance, Home Inspection reports <b>(IF)</b> referenced in the Purchase Contract		
47	2nd Mortgage Security Instrument and Note (fully executed certified copy) (if applicable)		
48	Subordinate Note (certified copy, including loan amount, rate / term, maturity date, payment) (if applicable)		
49	Subordination Agreement (if applicable)		
50	<b>TITLE</b>		
51	Preliminary Title Commitment (includes Plat Map / Survey, 24-month chain of title) < 60 days old		
52	Tax Certification		
53	Title Supplement		
54	Estimated Fee Sheet from Closer (if applicable)		
55	<b>APPRAISAL</b>		
56	Full URAR (original w/original photos and interior photos)		
57	Form 1007 if subject property is an investment property		
58	2 <sup>nd</sup> Full URAR (LOAN AMOUNT greater than \$1,500,000 or see section "SECOND APPRAISALS") will be conditioned if not provided at Intake		
59	BPO per program guidelines. Must include; Interior & exterior inspection		
60	Acra Appraisal Review – Acra INTERNAL Cond. (if applicable)		
61	MLS – Copy of Listing on Subject Property for Last 12 Months (if applicable)		
62	Seller’s Property Disclosures		
63	442 (with original photos) (if applicable)		
64	Rebuild Letter (satisfactory to rebuild letter from city / county re: _____) (if applicable)		
65	Market Rents Addendum (if applicable)		
66	<b>DISCLOSURES (rate, index, margin, floor and periodic and life caps must match)</b>		
67	CD / LE (ALL)		
68	All Re-disclosures (provide a timeline with acknowledgments)		
69	Initial MLDS for California loans regulated by BRE		
70	Notice of right to receive copy of appraisal		
71	Change of circumstance and all Loan Detail Reports		
72	Any and All other Federal or State mandated forms		
73	<b>MISCELLANEOUS</b>		
74	Condo Certification / HOA Certification		
75	Any additional documents that pertain to the credit decision for: Income, assets, reserves		
	<b>NOTE:</b> File to be reviewed by Acra’s Intake and Purchasing Department prior to issuing "Eligibility Certification." Files will be checked for conformance with Section 35 and State Predatory Lending Limits. Files are subject to all Representations and Warranties as delineated in the Mortgage Loan Purchase Agreement as well as Acra's Seller Guide.		

## Exhibit of Personal Recourse Guarantee

### GUARANTY

This GUARANTY ("Guaranty") is entered into and effective as of [\_\_\_\_], 202[\_\_\_\_], and is among [\_\_\_\_], an individual, whose address for purposes of this Guaranty is [\_\_\_\_] ("Guarantor"); and CITADEL SERVICING CORPORATION ("Lender"), whose address is 25531 Commercentre Drive, Suite 160, Lake Forest, California 92630 and is delivered to and in favor of Lender, its successors and assigns.

### RECITALS

- A. [\_\_\_\_], a [\_\_\_\_] ("Borrower") has or will execute and is delivering or has delivered to Lender a Promissory Note dated [\_\_\_\_], 202[\_\_\_\_] in the original principal amount of [\_\_\_\_] dollars (\$[\_\_\_\_].00) (the "Note").
- B. The Note is secured by a [Deed of Trust or Mortgage] dated [\_\_\_\_], 202[\_\_\_\_] made by Borrower, as trustor, for the benefit of Lender, as beneficiary, which encumbers that certain real property commonly referred to as [\_\_\_\_] ("Deed of Trust"). The Note and the Deed of Trust are sometimes referred to as the "Loan."
- C. To induce Lender to make the Loan to Borrower, which Guarantor acknowledges that Lender would not make the Loan without a guaranty, Guarantor is delivering to Lender this Guaranty.

### AGREEMENT

NOW, THEREFORE, in consideration of the foregoing and for other valuable consideration, the receipt and adequacy of which are hereby acknowledged, Guarantor agrees as follows:

1. Guaranty.

- 1.1 Guaranty of Obligations. Guarantor guarantees to Lender, its successors, and assigns the full and faithful payment of all amounts owed and performance of each and every one of the obligations, responsibilities, and undertakings to be carried out, performed, or observed by Borrower under the Note, the Deed of Trust, any other agreement that now or later secures repayment of the Note, any other agreement that Guarantor now or later states is guaranteed, and any other agreement that Guarantor or Borrower signs in connection with the loan obtained by Borrower. All these documents are collectively referred to as the "Loan Documents." The obligations guaranteed are referred to as the "Guaranteed Obligations."
- 1.2 Guaranty of Borrower's Performance. If at any time Borrower, its successors or permitted assigns fails, neglects or refuses to pay when due amounts or perform when due any of its obligations, responsibilities, or undertakings as expressly provided under the terms and conditions of the Loan Documents, Guarantor shall pay such amounts or perform or cause to be performed such obligations, responsibilities, or undertakings as required under the terms and conditions of the Loan Documents.
- 2. Absolute. This Guaranty is irrevocable, absolute, present, and unconditional. The obligations of Guarantor under this Guaranty shall not be affected, reduced, modified, or impaired on the happening from time to time of any of the following events, whether or not with notice to (except as notice is otherwise expressly required) or the consent of Guarantor:
  - 2.1 Failure to Give Notice. The failure to give notice to Guarantor of the occurrence of a default under the terms and provisions of this Guaranty or the Loan Documents;
  - 2.2 Modifications or Amendments. The modification or amendment, whether material or otherwise, of any obligation, covenant, or agreement set forth in this Guaranty or Loan Documents;
  - 2.3 Lender's Failure to Exercise Rights. Any failure, omission, delay by, or inability by Lender to assert or exercise any right, power, or remedy conferred on Lender in this Guaranty or the Loan Documents, including the failure to execute on collateral held for this Guaranty or the Loan Documents;

## Exhibit of Personal Recourse Guarantee

- 2.4 Release of Security. Any release of any real or personal property or other security now held or to be held by Lender for the performance of the Guaranteed Obligations;
- 2.5 Borrower's Termination. A termination, dissolution, consolidation, or merger of Borrower with or into any other entity;
- 2.6 Borrower's Bankruptcy. The voluntary or involuntary liquidation, dissolution, sale, or other disposition of all or substantially all of Borrower's assets, the marshalling of Borrower's assets and liabilities, the receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization, arrangement, composition with creditors, or readjustment of, or other similar proceedings affecting Borrower, Guarantor or any of the assets of either Borrower or Guarantor;
- 2.7 Borrower's Assignment of Rights. The assignment of any right, title, or interest of Lender in this guaranty or the Loan Documents to any other person;
- 2.8 Extent of Guarantor's Obligations. Any other cause or circumstance, foreseen or unforeseen, whether similar or dissimilar to any of the foregoing; it being the intent of Guarantor that its obligations under this Guaranty shall not be discharged, reduced, limited, or modified except by (a) payment of amounts owing pursuant to this Guaranty and / or Loan Documents (and then only to the extent of such payment or payments); and (b) full performance of obligations under this Guaranty and / or Loan Documents (and then only to the extent of such performed or discharged obligation or obligations); or
- 2.9 Exercise of Lender Rights. Any action of Lender authorized pursuant to Section 6 below.
3. Additional Credit. Additional credit under the Loan Documents may be granted from time to time at Borrower's request and without further authorization from or notice to Guarantor and shall automatically be deemed part of the Guaranteed Obligations. Lender may but need not inquire into Borrower's power or the authority of its members, officers, or agents acting or purporting to act on its behalf. Each credit granted to Borrower under the Loan Documents shall be deemed to have been granted at Guarantor's instance and request and in consideration of, and in reliance on, this Guaranty.
4. Guaranty of Payment. Guarantor's liability on this Guaranty is a guaranty of payment and performance, not of collectability, and shall remain in force until the full satisfaction of the Guaranteed Obligations.
5. Cessation of Liability. Guarantor's liability under this Guaranty shall not in any way be affected by the cessation of Borrower's liability for any reason other than full performance of all the obligations under the Loan Documents, including, without limitation, any and all obligations to indemnify Lender.
6. Authorization of Lender. Guarantor authorizes Lender, without notice or demand and without affecting its liability under this Guaranty, and without consent of Guarantor or prior notice to Guarantor, to:
- 6.1 Modify Loan Documents. Make any modifications to the Loan Documents;
- 6.2 Assign Guaranty. Assign the Loan Documents and this Guaranty;
- 6.3 Modify Security. Take, hold, or release security for the performance of the Guaranteed Obligations with the consent of the party providing such security;
- 6.4 Additional Guarantors. Accept or discharge, in whole or in part, additional guarantors;
- 6.5 Order of Sale. Direct the order and manner of any sale of all or any part of security now or later held under the Loan Documents or this Guaranty, and also bid at any such sale to the extent allowed by law; and

## Exhibit of Personal Recourse Guarantee

- 6.6 Application of Proceeds. Apply any payments or recovery from Borrower, Guarantor, or any source, and any proceeds of any security, to Borrower's obligations under the Loan Documents in such manner, order, and priority as Lender may elect, whether or not those obligations are guaranteed by this Guaranty or secured at the time of such application.
7. Lender's Rights on Borrower's Default. Guarantor agrees that on Borrower's default Lender may elect to nonjudicially or judicially foreclose against all or part of the real or personal property securing Borrower's obligations, or accept an assignment of any such security in lieu of foreclosure, or compromise or adjust any part of such obligations, or make any other accommodation with Borrower or Guarantor, or exercise any other remedy against Borrower or any security. No such action by Lender shall release or limit Guarantor's liability to Lender, even if the effect of that action is to deprive Guarantor of the right to collect reimbursement from Borrower or any other person for any sums paid to Lender or bar or prejudice Guarantor's rights of subrogation, contribution, or indemnity against Borrower or any other person. Without limiting the foregoing, it is understood and agreed that, on any foreclosure or assignment in lieu of foreclosure of any security held by Lender, such security shall no longer exist and that any right that Guarantor might otherwise have, on full payment of the Borrower's obligations by Guarantor to Lender, to participate in any such security or to be subrogated to any rights of Lender with respect to any such security shall be nonexistent; nor shall Guarantor be deemed to have any right, title, interest, or claim under any circumstances in or to any real or personal property held by Lender or any third party following any foreclosure or assignment in lieu of foreclosure of any such security. Guarantor again specifically acknowledges and waives the above as more specifically provided for in Section 21.2.3.
8. Effect of Borrower's Bankruptcy. The liability of Guarantor under this Guaranty shall in no way be affected by:
- 8.1 Release of Borrower. Release or discharge of Borrower in any creditor proceeding, receivership, bankruptcy, or other release or discharge of Borrower, for any reason;
- 8.2 Modification of Borrower's Liability. Impairment, limitation, or modification of Borrower's liability or the estate, or of any remedy for the enforcement of Borrower's liability, which may result from the operation of any present or future provision of the Bankruptcy Code (Title 11 of the United States Code, as amended; 11 U.S.C. §§ 101-1330) or any bankruptcy, insolvency, state or federal debtor relief statute, any other statute, or from the decision of any court;
- 8.3 Rejection of Debt. Rejection or disaffirmance of the indebtedness, or any portion of the indebtedness, in any such proceeding; or
- 8.4 Cessation of Borrower's Liability. Cessation, from any cause whatsoever, whether consensual or by operation of law, of Borrower's liability to Lender resulting from any such proceeding.
- 8.5 Modification and Replacement of Guaranteed Obligation. If the Guaranteed Obligations are restructured or replaced in connection with a bankruptcy proceeding or case, Guarantor shall remain liable as guarantor of such restructured or replaced obligation.
9. Subordination. Until the Guaranteed Obligations have been paid or otherwise discharged in full, Guarantor subordinates any and all liability or indebtedness of Borrower owed to Guarantor to the obligations of Borrower to Lender that arise under the Guaranteed Obligations. However, Guarantor may receive payment of current reasonable salary and current reasonable payments made in the ordinary course of business for goods provided or services rendered.
10. Application of Payments. With or without notice to Guarantor, Lender, in its sole and absolute discretion may:
- 10.1 Priority of Payments. Apply any or all payments or recoveries from Borrower, from Guarantor, or from any other guarantor or endorser under this or any other instrument, or realized from any security, in such manner, order, or priority as Lender sees fit, to the indebtedness of Borrower to Lender under the Loan Documents, whether such indebtedness is guaranteed by this Guaranty or is otherwise secured or is due at the time of such application; and

## Exhibit of Personal Recourse Guarantee

- 10.2 Refund to Borrower. Refund to Borrower any payment received by Lender on any indebtedness guaranteed in this Guaranty, and payment of the amount refunded is fully guaranteed. Any recovery realized from any other guarantor under this or any other instrument shall be first credited on that portion of the indebtedness of Borrower to Lender that exceeds the maximum liability, if any, of Guarantor under this Guaranty.
11. Claims in Bankruptcy. Guarantor shall file all claims against Borrower in any bankruptcy or other proceeding in which the filing of claims is required or allowed by law on any indebtedness of Borrower to Guarantor and shall assign to Lender all rights of Guarantor on any such indebtedness. If Guarantor does not file any such claim, Lender, as attorney-in-fact for Guarantor, is authorized to do so in Guarantor's name, or, in Lender's discretion, to assign the claim and to file a proof of claim in the name of Lender's nominee. In all such cases, whether in bankruptcy or otherwise, the person or persons authorized to pay such claim shall pay to Lender the full amount of any such claim, and, to the full extent necessary for that purpose, Guarantor assigns to Lender all of Guarantor's rights to any such payments or distributions to which Guarantor would otherwise be entitled.
12. Representations and Warranties if Guarantor is an Individual. Guarantor represents and warrants to Lender that:
- 12.1 Legal Status. Guarantor has all requisite power and has all material governmental licenses, authorizations, consents, and approvals necessary to carry on his business as now being or as proposed to be conducted.
- 12.2 No Breach. Neither the execution and delivery of this Guaranty nor compliance with its terms and provisions shall conflict with or result in a breach of, or require any consent under any agreement or instrument by which Guarantor is bound.
- 12.3 Authority and Power. This Guaranty has been duly and validly executed and delivered by Guarantor and constitutes its legal, valid, and binding obligation, enforceable against Guarantor in accordance with its terms.
- 12.4 Financial Statements. All financial information furnished or to be furnished to lender, if any, is or will be true and correct, does or will fairly represent the financial condition of Guarantor, and was or will be prepared in accordance with generally accepted accounting principles ("GAAP").
- 12.5 Claims and Proceedings. There are no claims, actions, proceedings, or investigations pending against Guarantor.
13. Information Not Required. Guarantor represents that Guarantor is fully aware of Borrower's financial condition and operation and is in a position by virtue of his / her / its relationship to Borrower to obtain all necessary financial and operational information concerning Borrower. Lender need not disclose to Guarantor any information about:
- 13.1 Loan Documents. The Loan Documents or any modification of them, and any action or non-action in connection with them;
- 13.2 Other Guaranteed Obligations. Any other obligation guaranteed in this Guaranty;
- 13.3 Borrower's Financial Condition. The financial condition or operation of Borrower; or
- 13.4 Other Guarantors. Any other guarantors.
14. Notice. Except for any notice required by Governmental Requirements to be given in another manner, (a) all notices required or permitted by this Guaranty shall be in writing; (b) each notice to Guarantor shall be sent (i) for personal delivery by a delivery service that provides a record of the date of delivery, the individual to whom delivery was made, and the address where delivery was made; or (ii) by certified United States mail, postage prepaid, return receipt requested; or (iii) by nationally recognized overnight delivery service, marked for next-



## Exhibit of Personal Recourse Guarantee

business-day delivery; and (c) all notices shall be addressed to the appropriate party at its address stated on Page 1 of this Guaranty or such other addresses as may be designated by notice given in compliance with this provision. Notices will be deemed effective on the earliest of (a) actual receipt; (b) rejection of delivery; or (c) if sent by certified mail, the third day on which regular United States mail delivery service is provided after the day of mailing or, if sent by overnight delivery service, on the next day on which such service makes next-business-day deliveries after the day of sending.

15. No Waiver Upon Lender's Lack of Enforcement. No failure or delay by Lender, or its successors and assigns, in exercising any right, power, or privilege under this Guaranty shall operate as a waiver; nor shall any single or partial exercise of any right, power, or privilege preclude any other or further such exercise or the exercise of any other right, power, or privilege.
16. Cumulative Rights. The extent of Guarantor's liability and all rights, powers, and remedies of Lender under this Guaranty, and under any other agreement now or at any future time in force between Lender and Guarantor, shall be cumulative and not alternative, and such rights, powers, and remedies shall be in addition to all rights, powers, and remedies given to Lender bylaw. This Guaranty is in addition to and exclusive of the guaranty of any other guarantor of any indebtedness of Borrower to Lender.
17. Advice of Counsel. Guarantor expressly declares that it knows and understands the contents of this Guaranty and has either consulted or had the opportunity to consult with an attorney as to its form and content.
18. Attorney Fees. Whether or not legal action is commenced, dismissed, or pursued to judgment, the prevailing party shall be entitled to payment of all reasonable fees and costs (including, without limitation, attorney fees and costs) that may be incurred by such party in connection with the enforcement of this Guaranty, the enforcement of any of the Loan Documents, and the protection of prevailing party's rights under this Guaranty or under the Loan Documents (whether in state, federal, or Bankruptcy Court proceedings).

In addition to the aforementioned fees, costs, and expenses, the prevailing party in any lawsuit on this Guaranty shall be entitled to its reasonable attorney fees, and all other fees, costs, and expenses incurred in any post judgment proceedings to collect or enforce any judgment. This provision for the recovery of post judgment fees, costs, and expenses is separate and several and shall survive the merger of this Guaranty into any judgment on this Guaranty.

19. Assignability. This Guaranty shall be binding on Guarantor and Guarantor's heirs, representatives, successors and assigns and shall inure to the benefit of Lender, its successors and assigns, and their successors and assigns and respective personal representatives, successors, and assigns according to the context of this Guaranty. Guarantor shall not have the right to assign the obligations in this Guaranty. Lender may assign its rights under this Guaranty in connection with an assignment of all or part of the Guaranteed Obligation. Notice is hereby waived as to any such assignment by Lender.
20. Revival of Guaranty. If a claim ("Claim") is made on Lender at any time (whether before or after payment or performance in full of any Guaranteed Obligation, and whether such claim is asserted in a bankruptcy proceeding or otherwise) for repayment or recovery of any amount or other value received by Lender (from any source) in payment of, or on account of, any Guaranteed Obligation, and if Lender repays such amount, returns value or otherwise becomes liable for all or part of such Claim by reason of (a) any judgment, decree, or order of any court or administrative body or (b) any settlement or compromise of such Claim, Guarantor shall remain severally liable to Lender for the amount so repaid or returned or for which Lender is liable to the same extent as if such payments or value had never been received by Lender, despite any termination of this Guaranty or the cancellation of any note or other document evidencing any Guaranteed Obligation.
21. Waivers.

21.1 Waiver of Rights to Require Lender to Act. Guarantor waives the right to require Lender to:

21.1.1 Proceed against Borrower or any other person;

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- 21.1.2 Proceed or exhaust any security held from any person;
  - 21.1.3 Proceed against any other guarantor; or
  - 21.1.4 Pursue any other remedy available to Lender.
- 21.2 Waivers Until Obligation Is Repaid. Until the Guaranteed Obligations have been paid or otherwise discharged in full:
- 21.2.1 Guarantor waives all rights of subrogation, indemnity, any rights to collect reimbursement from Borrower, and any right to enforce any remedy that Lender now has, or may have, against Borrower.
  - 21.2.2 Guarantor waives any benefit of, and any right to participate in, any security now or later held by Lender.
  - 21.2.3 Guarantor waives any defense it may have now or in the future based on any election of remedies by Lender that destroys Guarantor's subrogation rights or Guarantor's rights to proceed against Borrower for reimbursement, and Guarantor acknowledges that it shall be liable to Lender even though Guarantor may well have no such recourse against Borrower.
  - 21.2.4 Guarantor waives notice of (a) acceptance and reliance on this Guaranty; (b) notice of renewal, extension, or modification of any Guaranteed Obligation under this Guaranty; and (c) notice of default or demand in the case of default.
  - 21.2.5 Guarantor waives any right or defense it may now or hereafter have based on (a) Lender's full or partial release of any party who may be obligated to Lender; (b) Lender's full or partial release or impairment of any collateral for the Guaranteed Obligations; and (c) the modification or extension of the Guaranteed Obligations.
  - 21.2.6 Guarantor waives any and all suretyship defenses now or later available to it under the California Civil Code or the California Commercial Code.
  - 21.2.7 Without limiting the generality of any other waiver or provision of this Guaranty, Guarantor waives, to the maximum extent such waiver is permitted by law, any and all benefits or defenses arising directly or indirectly under any one or more of (a) California Civil Code §§ 2799, 2808, 2809, 2810, 2815, 2819, 2820, 2821, 2822, 2838, 2839, 2845, 2846, 2847, 2848, 2849, 2850, 2899, and 3433; (b) Chapter 2 of Title 14 of the California Civil Code; (c) California Code of Civil Procedure §§ 580a, 580b, 580c, 580d, and 726; (d) California Commercial Code §3605 or (e) any rights identified in *Union Bank v. Gradsky*, 265 Cal. App. 2d 40(1968).
  - 21.2.8 Guarantor waives any statute of limitation affecting liability under this Guaranty or the enforceability of this Guaranty and further waives any defense that might otherwise exist because of the expiration of the statute of limitations on the Loan Documents.
  - 21.2.9 Guarantor waives any duty of Lender to disclose to Guarantor any facts Lender may now know or later learn about Borrower or Borrower's financial condition regardless of whether Lender has reason to believe that any such facts materially increase the risk beyond that which Guarantor intends to assume, or has reason to believe that such facts are unknown to Guarantor, or has a reasonable opportunity to communicate such facts to Guarantor, it being understood and agreed that Guarantor is fully responsible for and is capable of being and keeping informed of Borrower's financial condition and of all circumstances bearing on the risk of nonpayment of any indebtedness guaranteed under this Guaranty.
  - 21.2.10 Guarantor waives all notices to Guarantor.
22. Governing Law. This Guaranty shall be governed by and construed in accordance with the laws of the State of California.
23. Jurisdiction and Venue. Jurisdiction and venue for any dispute, claim or controversy arising out of or relating to this Guaranty or the breach, termination, enforcement, interpretation or validity thereof, or any other interaction between the Lender and Borrower, shall be in County of Orange, State of California, or in the District or Bankruptcy Court of the United States for the Central District of California, County of Orange and Borrower and Guarantor hereby agrees to submit to personal jurisdiction in that forum for any and all purposes.
24. Service of Process. Guarantor agrees to waive personal service of process and agrees that a summons and complaint commencing any action or proceeding in any such court shall be properly served and confer personal

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jurisdiction if served by registered or certified mail to the Guarantor or as otherwise provided by the laws of the State of California.

25. WAIVER OF JURY TRIAL. LENDER AND GUARANTOR WAIVE, TO THE EXTENT PERMITTED BY APPLICABLE LAW, TRIAL BY JURY IN ANY LITIGATION OR PROCEEDING WITH RESPECT TO, IN CONNECTION WITH, OR ARISING FROM THIS GUARANTY OR THE LOAN DOCUMENTS, OR ANY INSTRUMENT OR DOCUMENT DELIVERED IN CONNECTION WITH THIS GUARANTY OR THE TRANSACTIONS CONTEMPLATED HERE, OR THE GUARANTY'S VALIDITY, PROTECTION, INTERPRETATION, COLLECTION, OR ENFORCEMENT, OR ANY OTHER CLAIM OR DISPUTE HOWSOEVER ARISING (INCLUDING TORT AND CLAIMS FOR BREACH OF DUTY) BETWEEN LENDER AND GUARANTOR.
26. Joint and Several. If this Guaranty is issued by more than one party or if any other party guarantees the obligations of Borrower, the obligations of Guarantor and any others under this Guaranty shall be joint and several.
27. Entire Agreement. This Guaranty embodies the entire agreement and understanding between Guarantor and Lender pertaining to the subject matter of this Guaranty, and supersedes all prior agreements, understandings, negotiations, representations, and discussions, whether verbal or written, of the parties, pertaining to that subject matter. Guarantor is not relying on any representations, warranties, or inducements from Lender that are not expressly stated in this Guaranty.
28. Continued Obligation to Cooperate. Guarantor shall promptly and duly execute and deliver to Lender such further documents and assurances and take such further action as Lender may from time to time reasonably request, including, without limitation, any amendments to this Guaranty to establish and protect the rights, interests, and remedies created or intended to be created in favor of Lender.
29. Nonwaiver. No provision of this Guaranty or right of Lender under this Guaranty can be waived, nor can Guarantor be released from its obligations under this Guaranty except by a writing duly executed by an authorized representative of Lender.
30. Continuing Liability. Guarantor shall continue to be liable under this Guaranty despite the transfer by Borrower of all or any portion of the property encumbered by the Loan Documents.
31. Captions. The captions and section headings appearing in this Guaranty are included solely for convenience of reference and are not intended to affect the interpretation of any provision of this Guaranty.
32. Neutral Interpretation. The provisions of this Guaranty shall be construed as to their fair meaning, and not for or against any party based upon any attribution to such party as the source or drafter of the language.
33. Severability. If any provision in this Guaranty is invalid and unenforceable in the jurisdiction whose law is applied to this Guaranty or in any particular context, then, to the fullest extent permitted by law, (a) the other provisions shall remain in full force and effect in such jurisdiction or context and shall be liberally construed in favor of Lender in order to carry out the parties' intentions as nearly as possible, and (b) the invalidity or unenforceability of any provision in that jurisdiction or context shall not affect the validity or enforceability of such provision in any other jurisdiction.

IN WITNESS WHEREOF, Guarantor has executed and delivered this Guaranty as of the date first written above.

GUARANTOR:

\_\_\_\_\_

[ ]

\_\_\_\_\_

[ ]

**Business Purpose Loan Certification and Attestation**

**Date:** [\_\_\_\_\_]

**Borrower Name(s):** [\_\_\_\_\_]

**Loan Number:** [\_\_\_\_\_]

**Mailing Address:** [\_\_\_\_\_]

**Property Address:** [\_\_\_\_\_]

By signing this document, I am confirming that my loan request is for business purposes and not household purposes, and that the loan proceeds are intended to be used and will in fact be used for business purposes only, and not my personal use. I also represent that I do not occupy the property as my Primary Residence or as a Second Home. I intend to lease or rent the property to a third party. I understand that because the loan will be made exclusively for business purposes, laws applicable to consumer purpose transactions, including but not limited to the following, are not applicable to this loan:

- Truth in Lending Act (15 U.S.C. § 1601 et seq.);
- Real Estate Settlement Procedures Act (12 U.S.C. § 2601 et seq.);
- Gramm-Leach Bliley Act (15 u.s.c. § 6802-6809);
- Secure and Fair Enforcement Mortgage Licensing Act (12 U.S.C. § 5101 et seq.); and / or
- Homeowners Protection Act (12 U.S.C. § 4901 et seq.).

By signing below, I confirm I have read and understand this document and I affirm that the Property to is to be a non-owner-occupied investment property.

\_\_\_\_\_  
Borrower 1

\_\_\_\_\_  
Date

\_\_\_\_\_  
Borrower 2

\_\_\_\_\_  
Date

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