

HELOC SECOND LIEN FULL AND BANK STATEMENT LOAN PROGRAM

Product code	SUNHELOC12																					
Loan transaction	Stand-alone transaction																					
Lien position	2nd Lien																					
Loan purpose	- Rate and Term refinance - Cash out refinance																					
Occupancy	- Primary residence 1 unit Second Home - Investment properties – business purpose only																					
Eligible states	All states except Texas, Guam, Northern Mariana Islands, American Samoa, and Hawaii (Lava zone 1 & 2 ineligible).																					
Amortization types	10, 15 or 30-years variable term with 3-year draw period with 3 years I/O.																					
Qualifying payments	<table><tr><th rowspan="2">Index + Margin</th><th rowspan="2">Qual Rate</th><th colspan="2">Rate limits</th><th colspan="2">Minimum payment</th></tr><tr><th>Life cap</th><th>Life floor</th><th>Draw period</th><th>Repayment period</th></tr><tr><td>10-year CMT index plus a margin as per rate sheet</td><td>Start rate + 2%</td><td>18%</td><td>6.75%</td><td>I/O calculation, greater of interest amount or \$100</td><td>Amortized P&I payment based upon the total line amount, repayment term, current rate (Index + margin)</td></tr></table>						Index + Margin	Qual Rate	Rate limits		Minimum payment		Life cap	Life floor	Draw period	Repayment period	10-year CMT index plus a margin as per rate sheet	Start rate + 2%	18%	6.75%	I/O calculation, greater of interest amount or \$100	Amortized P&I payment based upon the total line amount, repayment term, current rate (Index + margin)
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Draw requirement	<u>Initial Draw for Rate and term refinance:</u> 100% of the total credit limit <u>Initial Draw for Cash out refinance:</u> - Minimum 50% of the total credit limit - Maximum 100% of the total credit limit <u>Additional Draw:</u> - Unlimited draws are allowed during the draw period																					
Eligible borrowers	- US Citizen - Permanent Resident Alien - Non-permanent resident alien																					
Ineligible borrowers	- Foreign Nationals - First time homebuyer - ITIN borrower - Borrowers who are party to a lawsuit are ineligible. - Persons sanctioned by OFAC																					
Non-permanent resident alien	- A Non-Permanent Resident Alien is a non-U.S. citizen authorized to live and work in the U.S. on a temporary basis. A U.S. credit report is required for each borrower using a valid Social Security number. - If the Borrower is a Non-Permanent Resident Alien, the file must contain evidence of lawful residency. - A borrower with an expired, but otherwise acceptable Visa type, is permitted with supporting documentation. For example, supporting documentation includes, but is not limited to, any of the following: - Form I-797 which is issued when an application or petition is approved. - Form I-797C or I-797E which must not state that the application has been declined. - Application for extension of current visa I-539 (or equivalent) or copy of application for green card I-485 (or equivalent) and electronic verification of receipt from the USCIS web site. - If the borrower is sponsored by the employer, the employer may verify that they are sponsoring the Visa renewal.																					

	- In lieu of a Visa, an Unexpired Employment Authorization Document (EAD), or I-94 or I-797; and a letter from the employer or a verification of employment reflecting continuance is likely are required. - Grant of Asylum (Asylee) is permitted with letter from U.S. Citizenship and Immigration Services indicating eligibility and completed form I-94, Arrival and Departure Record, indicating borrower has been granted asylum in the U.S. - Borrowers with Deferred Action for Childhood Arrivals (DACA) approval are eligible.
Non-occupant co-borrowers	- Non-occupant co-borrowers are allowed if the following requirements are met: - Allowed on primary residence only. - Rate/term refinance transaction is only allowed.
Vesting allowed	- Ownership must be fee simple. - Acceptable forms of vesting are: - Individuals - Joint tenants - Tenants in common - Inter Vivos revocable Trust. - Vesting in the name of LLC, Corporation, or Partnership (allowed only on investment property)
Eligible properties	- Single Family residence [1-unit] 2-4 units - PUD - Warrantable Condominium - Non-Warrantable Condominium may be considered on a case-by-case basis.
Ineligible properties	- Leasehold - Condition rating of C5/C6 on the appraisal - Property with more than 10 acres - Vacant land or land development properties - Properties not readily accessible by roads that meet local standards - Properties not suitable for year-round occupancy, regardless of location - Properties with zoning violations, illegal use, or unpermitted additions/alterations - Properties zoned agricultural, commercial, or industrial - Properties with agricultural features (e.g., vineyards, farms, hobby farms, ranches, orchards, equestrian facilities) - Mixed-Use properties - Unique Properties - Manufactured or Mobile homes - Modular homes - Units subject to timeshare arrangements - Properties with fractional ownership - Units in a Co-op development - Properties used as boarding houses, bed/breakfast, or single room occupancy - Properties used as healthcare facilities (e.g., assisted living, elder care, recovery/treatment) - Properties with non-residential, income-producing structures on premise (e.g., billboards, cell phone towers, commercial workshop) - Dome or geodesic properties - Properties on Native American Land (Reservations) - Log homes - Hawaii properties located in lava zones 1 and/or 2 - Houseboats - Any project in litigation, arbitration, mediation, or other dispute regarding safety, soundness, or habitability. - Properties used for the cultivation, distribution, manufacture, or sale of marijuana - Rural property
Land contract/contract for deed	Paying off land contracts or contracts for deed is not acceptable.
Compliance	- No section 32 or state High cost - Loans must comply with all applicable federal and state regulations
Maximum number of borrowers	The maximum number of borrowers allowed is 4 per loan.
Ineligible senior lien	- Temporary Buydown - Negative amortization - Paid in Kind feature loan. - Loans secured by more than one underlying property including cross collateralized loans or blanket mortgages. - Reverse mortgages - Balloon loans that the balloon payment comes due during the amortization period of the 2nd lien. - Income produced, or in relation to, cannabis or hemp - Income produced, or in relation to, the adult entertainment industry

	- Community Second or downpayment assistance - Assumable loans - High-Cost Mortgage Loans - Loans with Escrow Holdbacks - Texas 50 (a)(6) - HELOC
Underwriting/Approval type	- Manual underwritten loans - Follow Fannie Mae requirements for documenting and requirements which are not addressed in the guide.
Senior liens documentation	- The following documents are required for the 1st lien: - Copy of Note and Deed of Trust/Mortgage; and - Copy of recent mortgage statement
First lien qualifying payment	- First lien qualifying payment for the debt-to-income (DTI) ratio: - Fixed Rate: Note rate amortized over the total loan term. - Adjustable-Rate Mortgage (ARM): Qualifying rate is the higher of the fully indexed rate or the Note - Interest Only (Fixed): Qualifying rate is amortized over the remaining term after the expiration of the interest only period.
Minimum credit score	680 - Minimum 2 credit score required for all the borrowers
Non-traditional credit	Not allowed
Maximum Debt-to-income ratio	50% - Qualifying ratios are based on PITIA payment with the principal and interest payments amortized over the scheduled remaining loan term after the interest-only period has expired.
Minimum loan amount	\$50,000

Eligibility matrix	Primary Residence CLTV Matrix		
	Loan Amount	Minimum Credit Score	Maximum CLTV allowed
	\$50,000 - \$350,000	740 and above	75%
	\$350,001 - \$500,000		70%
	\$50,000 - \$350,000	680-739	65%
	\$350,001 - \$500,000		65%

Second Home and Investment Property CLTV Matrix		
Loan Amount	Minimum Credit Score	Maximum CLTV allowed
\$50,000 - \$350,000	740 and above	70%
\$350,001 - \$500,000		65%
\$50,000 - \$350,000	700-739	60%
\$350,001 - \$500,000		60%

Reserve requirements	LTV	Reserve requirement
	LTV ≤ 60%	3 months reserve
	LTV > 60%	6 months reserve

Asset documentation	Most recent one-month bank statement or quarter statement indicating opening and closing balances are required.
Gift funds	- Gift funds are an acceptable source of funds for down payment, closing costs. - Gift funds can't be used for reserve requirements. - Gift Funds are acceptable if the following requirements are met: - For primary residence: No minimum borrower contribution from the borrower is required. - For second home and Investment properties: A minimum of 10% of the down payment must be made by the borrower from their own funds.
Unacceptable funds	- Gift funds which must be repaid in full or in part. - Cash on hand - Sweat Equity - Gifts from seller funded program - Shared appreciation second liens - Gift of equity - Rent credit - Foreign Assets - Unsecured loans or cash advances - Paycheck Protection Program (PPP) Loans - Small Business Administration (SBA) Loans - Down payment assistance
Housing or Mortgage lates	- Minimum 12 months housing history required. - No 30 days late allowed in the last 12 months on all mortgages for all the borrowers. - Mortgage payment histories on non-subject properties reported on credit report are not required till closing if the borrower has additional 2 months of reserve over and above the requirement as per the guidelines
Lawsuits	If the application, title or credit documents reflect that the borrower is involved in a lawsuit or litigation, the borrower is not eligible.
Derogatory events	- All open judgments and garnishments must be paid off prior to or at loan closing. - For non-medical collections, and charge-offs account follow FNMA guidelines.
Tax liens	- All tax liens (federal, state, and local) must be paid off prior to or at loan closing unless the requirements listed below are met: - A copy of the approved IRS instalment agreement with the terms of repayment, including the monthly payment amount and total amount due. - Multiple IRS instalment agreements are not allowed for one borrower. - A minimum of three (3) payments has been made under the plan with all payments made on time and the account is current. Acceptable evidence includes the most recent payment reminder from the IRS, reflecting the last payment amount and date and the next payment amount owed and due date. - The maximum payment must be included in the DTI.
Solar liens	UCC filings are acceptable provided they are limited to personal property.

Housing events

Housing events	Waiting Period	Waiting Period with Extenuating Circumstances
Chapter 7 or 11 Bankruptcy	4 years	2 years from discharge or dismissal date
Chapter 13 Bankruptcy	2 years from discharge date 4 years from dismissal date	2 years from discharge date 2 years from dismissal date
Multiple Bankruptcy Filings	5 years if more than one filing within the past 7 years	3 years from the lost recent discharge or dismissal date
Foreclosure	4 years	Not allowed
Deed-in-lieu of Foreclosure, Pre-foreclosure sale or Charge-off of Mortgage	4 years	2 years
Modification, Forbearance with missed payments	4 years	2 years

Rate and Term refinance transaction	- A property owned free and clear by the borrower is not eligible for rate/term refinance. - Maximum cash back allowed is lesser of 2% of the new refinanced loan amount or \$2,000. - Follow FNMA guidelines for requirement and documentation.
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Income documentation type allowed

- Full Doc: 2 years income documentation required.
- Reduced Doc: 1 year income documentation required.
- Bank Statement Documentation type:
 - 12 months personal bank statement
 - 12 months business bank statement
 - 24 months personal bank statement
 - 24 months business bank statement
- 12 or 24 months 1099 form

Full documentation type

- **Full Doc:** 2 years income documentation required.
- **Salaried Borrower:**
 - Most recent paystub covering 30 days' pay including YTD earnings. The pay stub must be dated no earlier than 30 days prior to the initial loan application date.
 - 2 years W-2 forms or wage transcript is required.
 - Written verification of employment or third-party VOE is required if the underwriter is not able to justify the income.
 - Signed and dated IRS form 4506-C
 - Verbal Verification of Employment within 10 days of closing.
- **Self-employed borrower:**
 - The two most recent Personal and/or Business tax returns, signed by the borrower(s), including any K-1's and all other schedules.
 - The most recent two months business bank statements are required on the loan.
 - If the borrower pays themselves wage income, a YTD pay stub and most recent two (2) years W2's are required.
 - Tax Transcripts for most recent two (2) years.
 - Signed and dated IRS form 4506-C
 - 3rd Party verification within 30-days of Note date. Methods of verifying the business include one of the following:
 - Letter from CPA, regulatory agency, or applicable licensing bureau
 - Internet Listing
 - Other reasonable evidence of business activity

Reduced documentation type

- **Reduced Doc:** 1 year income documentation required.
- **Salaried Borrower:**
 - Most recent paystub covering 30 days' pay including YTD earnings. The pay stub must be dated no earlier than 30 days prior to the initial loan application date.
 - 1 year W-2 form, or wage transcript is required.
 - Written verification of employment or third-party VOE is required if the underwriter is not able to justify the income.
 - Signed and dated IRS form 4506-C
 - Verbal Verification of Employment within 10 days of closing.
- **Self-employed borrower:**
 - The most recent Personal and/or Business tax returns, signed by the borrower(s), including any K-1's and all other schedules.
 - The most recent month business bank statements are required on the loan.
 - If the borrower pays themselves wage income, a YTD pay stub and most recent one (1) year W2's are required.
 - Tax Transcripts for most recent one (1) year.
 - Signed and dated IRS form 4506-C
 - 3rd Party verification within 30-days of Note date. Methods of verifying the business include one of the following:
 - Letter from CPA, regulatory agency, or applicable licensing bureau
 - Internet Listing
 - Other reasonable evidence of business activity

Bank statement documentation type

- **History requirements:**
 - Borrowers must be self-employed for at least two years.
 - Less than two (2) years of self-employment history permitted if the borrower has been employed in the same line of work and same industry for at least two (2) years, with supporting documentation. Minimum length of self-employment required is one (1) year.
- **Existence of the business:**
 - The business must be in existence for a minimum of two (2) years, as evidenced by one of the following:
 - CPA letter or
 - Business license

- **Ineligible entity or funds:**
 - Non-profit entity is not eligible.
 - Funds/deposits in an IOLTA (trust) ineligible source.
- **Tax return and 4506-C requirement:**
 - Tax return and 4506-C are not required for the bank statement programs.
 - When wage income is combined with Alt Doc, a tax return is not required for the standard full income documentation. 4506-C form should reflect Box 8 checked to obtain a transcript of W-2 earnings.
- **12- or 24-months Personal Bank Statement Documentation type:**
- **Documentation Requirements:**
 - 12 or 24 months of consecutive personal bank statements required. The most recent statement must be dated within 120 days of the note date.
 - Most recent two months of business bank statements are required.
 - The borrowers must own minimum 50% of the business. The following documentation is required to document the ownership:
 - CPA letter.
 - Tax Preparer Letter
 - Operating agreement or equivalent reflecting the borrower's ownership percentage.
- **Review of the bank statement:**
 - Deposits from alternative payment processing applications (i.e., Square, Venmo) are eligible.
 - ATM deposits may be included if a consistent pattern of such deposits can be validated.
 - If the personal account is jointly owned, and the joint owner is not an owner of the business, deposits that are not readily identifiable as transfers from the business accounts or business deposits must be excluded from income calculation unless sourced.
 - NSF activity in the past 12 or 24 months must be satisfactorily explained by the borrower and subject to management approval.
 - Any inconsistent or large deposit must be sourced or excluded from the income calculation. The large deposit is any deposit exceeding 50% of the average monthly sales of the business.
 - If there is any change in deposit pattern, then the same must be explained by the borrower.
 - Only transfers or deposits from the business account are eligible deposits for income calculation.
 - The most recent bank statement must be consistent with the qualifying income.
 - The combination of Personal Bank Statement Documentation and Business Bank Statement Documentation is not acceptable.
 - Business receipt and expense activity reflected in personal bank accounts are not acceptable under the personal bank statement program.
 - Two months of business bank statements must be reviewed for the following:
 - Evidence activity to support business operations
 - It must reflect transfers to the personal account.
- **Income Calculation:**
- Qualifying income = Sum of the total eligible deposits from the statements reviewed
12 or 24 months based on qualification method
- **12- or 24-months Business Bank Statement Documentation type:**
- **Documentation Requirements:**
 - 12 or 24 months of consecutive business bank statements required.
 - The most recent statement must be dated within 120 days of the note date.
 - The borrowers must own minimum 50% of the business. The following documentation is required to document the ownership:
 - CPA letter.
 - Tax Preparer Letter
 - Operating agreement or equivalent reflecting the borrower's ownership percentage.
- **Review of the bank statement:**
 - Deposits from alternative payment processing applications (i.e., Square, Venmo) are eligible.

- Any inconsistent or large deposit must be sourced or excluded from the income calculation. The large deposit is any deposit exceeding 50% of the average monthly sales of the business.
 - If there is any change in deposit pattern, then the same must be explained by the borrower.
 - The most recent bank statement must be consistent with the qualifying income.
 - NSF activity in the past 12 or 24 months must be satisfactorily explained by the borrower and subject to management approval.
 - ATM deposits may be included if a consistent pattern of such deposits can be validated.
- **Co-mingled Bank statement** (i.e., combination of personal and business receipt and expense activity reflected in one bank accounts) are only acceptable if below requirements are met:
 - Borrower must be the sole owner of the business and must have 100% ownership in the business.
 - Following documents are required to verify the above requirements:
 - Ownership must be documented from any of the following:
 - CPA letter, Tax Preparer letter, operating agreement, or equivalent document reflecting the borrower's ownership percentage.
 - URLA or loan application must reflect borrower is a sole owner.
 - Borrower and spouse with combined 100% ownership of the account are eligible.
- **Income Calculation options for business bank statement:**
- **Option 1: Standard Expense Ratio = 50%**
- **Additional Documentation Requirements:**
 - A standard 50% expense factor will be applied to the total of eligible deposits.
 - If the business operates more efficiently or typically has a materially different expense factor (higher or lower than standard expense factor) then an expense factor from a CPA/account, IRS enrolled agent, tax preparer or P&L may be used to determine qualifying income.
 - Income calculation under standard expense ratio: Total deposits from all bank statements, less any inconsistent deposit(s), multiplied by 50%, multiplied by ownership percentage, divided by the number of bank statements reviewed

$$\text{Qualifying income} = \text{Deposits} \times (.50) \times (\text{ownership} \%) / 24 \text{ or } 12$$

- **Option 2: Tiered Expense ratio:**
- **Additional Documentation Requirements:**
 - 24 or 12-months business bank statement as per qualification method.
 - The expense ratio is tiered based on certain aspects of the borrower's business including, but not limited to the industry, number of employees, inventory vs services business, physical place of business vs work from home etc.
 - Net income is calculated by determining total eligible deposits per bank statement (minus any disallowed deposits) multiplied by tiered expense ratio after accounting for the borrower's ownership percentage and divided by 12 or 24 months.

Tiered Expense ratio			
Number of Employees/Contractors	0	1-5	>5
Service Business such as Consulting, Accounting, Legal, Therapy, Counselling, Financial Planning, Insurance, Information Technology	20%	40%	50%
Capital Intensive Business such as Retail, Food Services, Restaurant, Manufacturing, Factor Contracting, Construction	30%	50%	85%

$$\text{Qualifying income} = \text{Eligible Deposits} * \text{Borrower Ownership} \% * (1 - \text{Tiered Expense Ratio} \%)$$

12 or 24 months based on qualification period

- **Option 3: Expense ratio provided by a 3rd party (CPA or EA or Tax Attorney or Paid Tax Professional (PTIN))- Minimum ratio of 20%:**

	▪ <u>Additional Documentation Requirements:</u> ○ The Expense Statement must be prepared, signed, and dated by CPA specifying business expenses as a percentage of the gross annual sales/revenue is required. ○ The statement does not contain any language that may compromise the integrity of the information provided. ○ CPA cannot be an employee or a relative of the Borrower. ○ The expense statement must have the name of the business. ▪ <u>Income calculation under Expense ratio provided by a CPA:</u> Total expenses are calculated by multiplying the total deposits by the expense factor provided (subject to a minimum total expense percentage of 20%), multiplied by ownership percentage, divided by the number of bank statements.
	• $\text{Qualifying income} = \text{Eligible Deposits} \times (1 - \text{expense ratio \%}) \times (\text{ownership \%}) / 24 \text{ or } 12$ • The borrower must be self-employed for a period of a minimum of 2 years. • 1099 income option is only allowed for borrower earnings from 100% commission or from independent contracts. • Income can be documented by using 2 years or 1 year of IRS Form 1099 • 1099 income must be validated with 4506-C wage and income transcript. • YTD earnings must support the receipt of income shown on the 1099 by: • Checks or a single check stub(s) with YTD totals, or • Bank Statements (YTD): ○ The YTD earnings from the total of check stubs or the total of deposits from bank statements must be within 10% or greater than prior year earnings.
12- or 24-months 1099 income qualification	
	<u>Qualifying income is calculated considering 10% expense factor:</u> (12 or 24 Total gross 1099 income) divided by total number of applicable months * (1-10% expenses factor)
Other eligible sources of income	• Document per current FNMA Seller Guide, eligible sources include but not limited to: ○ Social Security ○ Benefits ○ Pensions ○ Investment/Trust ○ Annuity income ○ Rental Income
Cannabis income	• Income is allowed if the borrower is salaried or wage earner in the industry. • Self-employed income (active or passive) derived from a company involved in cultivation, transportation, retailing etc. is not allowed regardless of borrower's ownership percentage in the business.
Maximum number of financed properties	• A maximum of four (4) financed properties are permitted. • Borrowers with more than four (4) financed properties may be considered subject to management review and approval. • Sun west's exposure to each individual borrower and/or in total may not exceed \$5M in current unpaid principal balance with a maximum of 4 loans.
Subordinate liens	• All existing subordinate lien must be satisfied. • Subordinate Financing is not allowed.
Recently listed properties	• The subject property must be taken off the market on or before the application date. • The value will be based on the lesser of the lowest list price in prior 12 months or appraised value.
Title policy	• <u>Loan Amount <= \$250,000: One of the following documentations is required:</u> ○ Limited title policy is acceptable. • <u>Loan Amount > \$250,000: The following are required:</u> ○ Full Title, Title Policy/Insurance, and CPL are required

Appraisal requirements

- Appraisal waivers are not acceptable.
- Appraisal update (1004D) is not allowed.

Loan Amount	HPML/non-HPML	Requirement
Loan amount < =\$250,000	Non-HPML	One of the following is required: • AVM • BPO • Desktop appraisal • Exterior-only appraisal • Hybrid appraisal
Loan amount < =\$250,000	HPML	Full Appraisal
Loan amount > \$250,000	HPML or non-HPML	Full Appraisal

AVM requirement

- AVM is required from an approved vendor with the following acceptable FSD score range:

AVM vendor	Acceptable FSD score range
Clear Capital	0.00 to 0.20
Collateral Analytics	0.00 to 0.18

- Full appraisal required when AVM has less than 90% Confidence Factor.

Power of attorney

- Power of Attorney is not eligible.

Pre-payment penalty

- Not applicable

Mortgage insurance

- Not applicable

Assumable

- Not allowed

Escrow

- Not required.
- Escrow holdbacks are not allowed.

Age of documents

Documents	Validity
Income and Credit documents	120 days old at the time of closing
Asset documents	120 days old at the time of closing
Title Report (or O&E)	60 days old at the time of closing
Appraisal	120 days old at the time of closing
AVM/BPO/Desktop review/Desktop appraisal/field review/exterior only appraisal/Hybrid appraisal	60 days old at the time of closing

Note: New appraisal is required after 120 days.

Requirements when vesting in the name of Entity

- Vesting in the name of entity is allowed on investment business purpose loan.
- Entity must be domiciled in a U.S. state.
- Any business structure is limited to a maximum of four owners/ partners/stakeholders.
- All persons with >25% interest in the business entity and each member of the borrowing entity providing a personal guaranty must apply for a loan and complete a loan application (1003) signed in their individual capacity.

Personal guarantors

- A Personal Guarantor must be an owner of the borrowing entity with 25% or greater ownership interest in the Borrowing Entity.
- The following individuals are not eligible to be Personal Guarantors:
 - Individuals with diplomatic immunity or otherwise excluded from U.S. jurisdiction.
 - Residents of any country not permitted to transact business with US companies are ineligible (as determined by any U.S. government authority)
 - Trusts or Land Trusts
 - Individuals less than 18 years old

Documentation when vesting in the name of Entity

- The following documentation is required for each Borrowing Entity:
 - Formation and Operating documents
 - Articles of Incorporation and bylaws
 - Certificate of Formation and Operating Agreement
 - Secretary of State Search

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- Certificate of Good Standing
 - EIN-Employer Identification Number (or W-9 with acceptable third-party verification)
 - Evidence of signing authority for Guarantor signing on behalf of the entity
-