Aapex Mortgage
Expanded Underwriting Guidelines

1st Mortgage Underwriting Guidelines

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1. General Policy

1.1. Introduction

These underwriting guidelines apply to Aapex Mortgage (Aapex) first mortgage products. To determine a loan's acceptance requires review of both the Underwriting Guidelines and the Product Matrix.

The following are current Aapex first mortgage products:

- Lender's Choice (Nonprime First Mortgages)
- Lender's Premium Blend (owner occupied 80/20 First & Second – also reference 2nd mtg guidelines)

1.2. Underwriting Philosophy

Aapex has created guidelines for underwriting borrowers that it believes are prudent and sound for its current products. Because each loan is unique and underwriting is an art, not a science, underwriters are expected to use discretion and common sense when making lending decisions.

The three primary factors of underwriting are the borrower's willingness to repay the debt, the borrower's ability to repay the debt and whether the property has sufficient security for the mortgage. Aapex management may on occasion grant exceptions. Compensating factors are generally taken into consideration through the decision process. The following is a general list of factors:

- Evidence of a large down payment towards purchase of the property or evidence of a large equity position on a refinance (Low LTV)
- Evidence of substantial liquid net worth or reserves before and after closing
- Evidence of the applicant's ability to maintain an excellent credit history and demonstrate proper debt management
- Long term mortgage rating paid as agreed
- Overall good savings from the proposed transaction (refinance), in cases of a purchase transaction the borrower demonstrated ability to handle a similar mortgage payment.
- Verified low debt to income ratio
- Evidence of substantial disposable income
- Stable/long term employment
- Long term homeownership of the subject property
- Pride of homeownership

Aapex is committed to fairness and equal opportunity. All customers should receive the same level of service. Discrimination based on race, color, sex, sexual orientation, disability, national or ethnic origin, marital or familial status, religion or age is against company policy and unlawful.

1.3. Predatory Lending and Section 32 Policy

Predatory and Section 32 loans are prohibited. Aapex adheres to high ethical standards and practices. Accordingly, Aapex does not condone nor will it knowingly engage in predatory or abusive lending practices.

1.4. Combo Loans

The more stringent of the first or second guidelines will apply in the qualification of combo loans. Each loan is reviewed individually and must have complete documentation in each loan file.

2. Borrower Eligibility

2.1. U.S. Citizens

A United States citizen is a native or naturalized person entitled to all rights and privileges of the United States and is eligible for financing.

2.2. Permanent Resident Aliens

A permanent resident alien is an individual who is lawfully residing permanently in the United States and is eligible for financing. Evidence of lawful permanent residency issued by the Federal Immigration & Naturalization Service (INS) is required. Copy (front and back) Alien Registration Receipt (green) Card No. 1-151is acceptable.

2.3. Non Occupying Co-borrower

Non occupying co-borrowers may be considered under the following conditions:

1. All borrowers must be close relatives (parent, child, sibling, legal guardian).
2. Non occupying co-borrower may be a cosigner/guarantor if the LTV is less than 97% and they are obligated for repayment of debt, but not required to take title.
3. Occupant borrower's DTI may not exceed 50%

2.4. Non-Arms Length Transactions (AKA Common Interest Transactions)

A non-arms length transaction exists whenever the applicant has a personal or business relationship with the seller, builder, developer, real estate agent, appraiser, lender providing the financing, Title Company, or any other interested party. These relationships may influence the transaction and are generally not eligible for financing, however will be considered on a case-by-case basis.

Transfers will be considered only under the following conditions

1. Relationships are disclosed with initial submission.
2. Subject property will be Primary Residence.
3. Cancelled rent checks may be required if purchasing from landlord.
4. Full income documentation. 1040's may be required if employed by family.
5. Field Review to the original appraisal completed by Aapex.
6. In the case of family transfer, evidence the transaction is not a foreclosure bail out.
7. National third party providers should provide all services including but not limited to the appraisal, the settlement and the title search/commitment.
8. Additional risk factors are not present. Examples of additional risk factors include: distress sale, high amount of seller contributions, selling assets for down payment.
9. Fully executed, legally binding purchase contract.

Non-arms length transactions include, but are not limited to affiliates of the applicant who are:

1. Family Members related by blood or marriage to the seller.
2. Owners, employees or family members of origination lender.
3. Builder/developers – applies to second homes and non-owner occupied transactions.
4. Renters buying from landlord.
5. Trading properties with the seller.
6. Employed by family members.

2.5. Ineligible Borrowers

1. Non-Permanent Resident Aliens
2. Borrowers with diplomatic immunity or otherwise excluded from U.S. Jurisdiction
3. Foreign Nationals
4. Borrowers not of legal age.
5. Properties vested in a trust.
6. Properties vested as limited partnerships, general partnerships, corporations.

2.6. Occupancy

Primary Residence (Owner Occupied): Primary occupancy is a one-to-four family dwelling (including condominiums and PUD's) that is occupied as the borrower's primary residence. A typical primary residence will meet the following criteria:

1. Located within a reasonable distance to the borrower's place of employment.
2. Subject is declared as the borrower's primary residence for purposes of tax reporting, voter registration, etc.
3. Borrower(s) declare(s) his/her/their intention to occupy the subject.
4. Physical characteristics of dwelling should be sufficient to accommodate the owner's immediate family.
5. Transactions where occupancy is questionable will be treated as non-owner occupied.

Second Home Occupancy: Second home occupancy is a single-family dwelling or condominium that the borrower occupies in addition to his or her primary residence. A typical second home will meet the following criteria:

1. Located in a resort area or where the applicant regularly conducts business affairs.
2. Should be a remote distance from the borrower's primary residence.
3. Property must be suitable for year-round occupancy.
4. Property must be available for borrower's exclusive use and enjoyment. May not be subject to any timesharing arrangements, rental pools or other agreements which require the borrower to rent the property or otherwise give control of the property to a management firm.
5. Non-Arms Length transactions are not eligible.
6. Typically, a borrower may have only one second home.
7. Transactions where occupancy is questionable will be treated as non-owner occupied transactions.

Non-Owner Occupied (Investment Properties): Investment property is a dwelling occupied by someone other than the borrower. This definition is used whether or not income is derived from the property. Maximum two non-owner occupied loan per borrower. Additional N.O.O. loans may be considered on an exception basis by Management. Non-Arms Length transactions are not eligible.

2.7. Multiple Loans

Typically financing is available for 1 owner occupied or second home and 2 non owner occupied properties up to 1 million in aggregate per borrower. Multiple loans to one borrower must be delivered concurrently for underwriting. There is a 90 day review period after the maximum is met – any additional loans after this period require Secondary Marketing second signature.

2.8. Multiple Properties

Unless otherwise stipulated in the Product Matrix, there is no limit on the number of other financed properties a borrower may own.

2.9. Landlord Experience

Underwriting will take into consideration the number of properties owned and the length of time the properties have been owned. Investors who demonstrate a rapid acquisition (acquired within the most recent 24 month period) of investment properties will be reviewed cautiously. Underwriting reserves the right to request documentation to evidence the borrower had the funds required to purchase any property acquired within the last 24 months and/or sufficient verified assets to provide adequate reserves for the investment portfolio.

In addition, the file must contain evidence the borrower has sufficient experience to handle the entire investment portfolio. Loans made to borrowers owning multiple Non-owner occupied properties must meet the following additional guidelines:

1. File contains documentation evidencing borrower's experience owning multiple investment properties (two years experience required); or
2. Borrower has acquired or is in the process of acquiring a maximum of (including subject property, if applicable)
    a. Two or more investment properties within the last six months; and/or
    b. Four or more financed investment properties within the last two years.
3. At least 50% of the properties must have been owned for two years prior to the date of application.

3. Transactions/Loan Purpose

3.1. Purchase Transactions

A purchase money transaction is one which allows one person to acquire the property from another person or entity. A copy of the fully executed purchase contract and all attachments or addenda will be required for all purchase transactions. Escrow instructions fully executed by all parties are acceptable in lieu of the purchase contract if not available.
A preliminary title report or search should be provided with all loan submissions. See Section 12 (Title) regarding required documentation and/or acceptable sources to satisfactorily verify property ownership and value increases for at least 24 months.
The LTV is based on the lesser of the purchase price or current appraised value.

3.2. Refinance Transactions

A refinance transaction is one to replace an existing loan(s) with a new loan to current owners or to place financing on a property currently owned by the applicant where no financing exists. There are two types of refinance transactions:
<u>Rate/Term Refinance:</u> The mortgage amount is limited to the sum of the present first mortgage payoff, any subordinate financing used to acquire the property or 12 months old and closing costs including prepaid. Cash to the borrower is limited to the lesser of 2% of the loan amount or $2000.
Paying off Existing subordinate financing that meets one of the following criteria is not considered cash out and may be considered as a rate/term refinance:

1. Existing subordinate lien was used for the purchase of the subject property.
2. Subordinate lien is over 12 months old.
3. Proceeds of the subordinate lien were used for property improvements to the subject property within the most recent 12 months (provide evidence of work performed and charges)
4. Draws on equity line of credit in the past 12 months that, in total do not exceed the lesser of 2% or $2000.
5. Documented equity interest of ex-spouse or ex-mortgagor, pursuant to a divorce decree or other legally binding written agreement.

<u>Cash Out Refinance:</u> The mortgage amount may include the present first mortgage payoff, subordinate liens, debt consolidation, closing costs and additional cash to the borrower. Maximum LTV and allowable cash back varies by product type. Refer to the Product Matrix.

3.3. Lease Purchase Option

A lease-purchase option is a contract for sale of property in which the purchaser leases the property for a prescribed period of time. During this period an agreed upon percentage of the rental payment is held by the seller for use as the down payment on the property. The following guidelines apply:

1. The original agreement must be over 12 months. The loan will be treated as a purchase since the borrowers are not on title during the option period and as a result of this transaction will be vested on title.
2. Copies of cancelled rent checks are required to verify the length of the contract as well as, the payment history.
3. If the agreement specifies that rent credits are to be applied toward the down payment, Aapex will consider this, provided the appraiser documents the fair market rent with a market rent survey. The portion of rent that exceeds the rent market survey will be used to calculate the additional down payment. If a down payment was made, a copy of the cancelled check is required.

3.4. Land Contracts

A Land Contract or Contract for Deed is a contract in which the purchaser agrees to pay the seller specified amounts at defined intervals until the total purchase price is paid, at which time the seller transfers his interest in the property to the purchaser.
Aapex will purchase loans that involve a Land Contract in accordance with the following guidelines:

1. If the contract has been in place for less than 12 months at the time of application, the transaction will be considered a purchase. The LTV ratio will be based on the lesser of the purchase price on the contract or the current appraised value. If the contract has been in place for 12 months or more at the time of application, the transaction will be considered a rate and term refinance and subject to rescission, unless otherwise exempt by the truth in lending act. The LTV ratio will be based on the current appraised value. Cash out refinances may be considered on an exception basis by Management.

2. The following document(s) are required for these transactions:
   a. A copy of the notarized land contract
   b. If a refinance transaction, copies of the most recent twelve months cancelled checks must be provided.
   c. If a purchase transaction, the HUD-1 Settlement Statement must show the transaction as a purchase and there can be no cash back to the borrower.

3.5. Permanent Financing for Newly Constructed Homes

The underwriter must determine if the loan is a purchase or rate/term refinance. Depending on how it is classified will determine how the LTV is calculated. The following table breaks down the different possibilities.
Purchase: A contract for the building of the dwelling exists between the borrower and builder. Typically the borrower will not be on title to the land. In these cases, the LTV is based on the lesser of current appraised value or documented acquisition cost/purchase price.
Rate Term: Borrower is on title to the land. New loan includes the payoff of a first mortgage subordinate lien may be paid off if proceeds were used to help build the property and closing costs. The LTV is based on the lesser of current appraised value or documented acquisition cost/purchase price.

3.6. Inherited Properties

If property was inherited (date of death) less than 12 months prior to application, rate/term refinances will be permitted subject to the following:

1. Proceeds will be used to buy-out the documented equity interest of others. Equity owners must be paid through escrow.
2. The property has cleared probate and property is vested in the borrower's name.
3. Current appraised value will be used for LTV/CLTV determination. Desk or field review appraisal may be required at the underwriter's discretion.
4. Limited Cash Out Transactions will be considered on a case by case basis up to 25k.

3.7. Subordinate Financing (Lenders Choice Program)

Subordinate financing is allowed and must meet maximum LTV's as indicated on the Product Matrix. The subordinate lien must be recorded and clearly subordinate to the new first mortgage or deed of trust.

Open end subordinate mortgages are permitted provided they do not allow for increases to the existing maximum loan amount. CLTV max is 100% based on the maximum credit limit.

The following requirements apply to Seller Carry Back subordinate liens:

- Minimum carry back term is five (5) years, no balloon within 5 years.
- Payments must be at least interest-only and the rate must be at a reasonable or market rate.
- Aapex must have a copy of the seller carry back Note and Security Instrument.
- The final HUD-1 Settlement Statement must reflect the seller carry back, including both the amount and to whom the carry back is payable.
- Max 95% CLTV private party 2nd requires 5% borrower(s) own funds (source and seasoning not required).
- 100% CLTV private party 2nd permitted with 1st < 80%; minimum 620 credit score and full income documentation required.
- At the underwriters discretion a field review appraisal may be ordered by Aapex to support value.

3.8. Trade Equity/IRS 1031 Exchange

1031 IRS Exchanges may be considered on a case by case basis. Documentation requirements would depend upon the type of property exchange being utilized. When the property trade is between the borrower and seller, the following documentation must be provided:

1. Current Appraisal on the borrower's property which is being traded.
2. Closing statement for borrower's property to evidence net proceeds available.

An IRS 1031 Exchange allows a borrower to place proceeds from the sale of a property into an escrow account until they are ready to purchase another like-kind property with the proceeds. The following documentation must be provided:

1. Copy of closing statement
2. Copy of exchange agreement
3. Statement from Accommodator verifying available funds

3.9. Ineligible Transactions

The following features are ineligible for financing:

- Property/Land Flip Transactions.
- Straw Borrowers/Straw Buyer
- Builder/Seller Bailout plans
- Multiple property payment skimming – typically involves investors who purchase investment properties with seller carry-back financing, collect rents but do no make the mortgage payments.
- Additional restrictions may be outlined in the applicable Product Matrix.

4. Credit Analysis

4.1. Age of Credit Report/Credit Verifications

Credit report expiration for Lenders Premium Blend is 45 days from closing and 60 days for Lenders Choice.

4.2. Credit Report Scoring and Requirements

The loan file must contain a three (3) bureau in-file credit report or Residential Mortgage Credit Report (RMCR) for each borrower from an independent credit vendor. The credit report must include a thorough check and reporting of all available public records for each borrower.

The primary wage earners middle score will be used for qualifying purposes. If three scores are not available due to one repository not being able to calculate a score or system related issues, the lower of the two scores will be used. The primary wage earner must have a minimum of two scores. The co-borrower must have a minimum of one score. Zeros (no score provided) are excluded from determining the score.

Primary wage earner must have no less than 500 middle credit score (refer to Program Matrix for minimum score based on Tier and LTV). In cases where the co-borrowers income is used for qualifying a minimum 500 middle credit score is required.

Credit scores analyze the applicant's credit use patterns, including any derogatory credit, to predict the probability of default. The credit score assists in evaluating the borrower's consumer credit.

Scores obtained from Experian (FICO), Trans Union (Empirica) and Equifax (Beacon) will be acceptable. A credit score from any other source will not be acceptable.

4.3. Minimum Consumer Trade Lines

Minimum consumer trade line requirements excluding rent/mortgage history:

- 3 accounts rated satisfactory with a 12 month history.

  OR
- 2 accounts with satisfactory pay history within the last 12 months. 1 trade must have a high credit limit of 5k with a 12 month history.

An acceptable tradeline is one from a traditional credit source. Alternative credit tradelines for furniture or installment loans may be considered. Unacceptable tradelines are as follows but not limited to: collections, charge-offs, "authorized user" accounts, deferred loans with no pay history, transferred accounts, or alternative credit from utilities, cellular phone accounts etc…

Limited credit borrowers not meeting minimum trade line requirements may be reviewed on a case by case basis for the Lenders Choice Product with reduced LTV's and Tiers. Trade line requirements for Lenders Choice Tier 4-5 are at underwriter discretion.

Lenders Choice 1st mortgage program will waive minimum consumer credit tradeline requirements with the following criteria:

- 620 minimum Credit Score
- Full Income Documentation Only
- Max DTI 50%
- 12 month verification of mortgage paid as agreed OR 12 months cancelled rent checks to verify paid as agreed (VOR's not permitted)

4.4. Mortgage/Rental Payment History

Unless otherwise stipulated in the applicable Product Matrix', files must contain verification of the borrower's 12 month payment history for all mortgages appearing on the credit report and initial application.

Mortgage history may be verified in one of the following manners:

- Verified on the credit report or

- Direct written reference from the mortgagee. Private party VOM is acceptable provided it is an arms length transaction – for example cancelled checks would be required if the mortgagee is related to the borrower or the borrower is employed by the mortgagee or
- Twelve months canceled checks (front and back) or
- Mortgage computer generated or typed payment history from the mortgagee which identifies the following:
    - Payment history covering at least 12 months
    - The borrower, issuer and mortgage
    - The outstanding balance

Rental History may be verified in one of the following manners:

- Direct written verification of 12 month rental history from landlord is acceptable. A private party VOR is acceptable, provided it is an arms length transaction – for example cancelled checks would be required if the landlord is the borrowers employer/relative or is the seller or
- Twelve months cancelled checks (front and back) may be provided

When canceled checks are provided as documentation:

- Copies of both the front and back of each check are required.
- Print must be legible
- The date of bank endorsement for deposit must show on the back
- Check must identify the servicer, landlord or management company

4.5. No Housing Payment History (FTHB living w/relative)

First Time Home Buyers living with relatives that do not have a 12 month payment history are eligible with the following criteria:

1. Minimum 620 credit score
2. Must have a minimum 4 consumer trade lines:
    a. 1 account with a 24 month satisfactory history having a 5k min balance and 3 accounts with a 12 month satisfactory history.
3. Full income documentation only
4. 45% DTI max
5. 2 month piti reserves evidence via 1 bank statement
6. SFR and Condo properties only

4.6. Evaluation of Credit

The review of an applicant's credit history reveals a great deal in determining the likelihood of debt repayment. Although credit reports may contain several or more years of credit history, the most recent credit use patterns are the most predictive of repayment ability. Generally, an acceptable credit history will include at least two or three years of credit use. A shorter credit history may indicate increased risk, but all credit factors must be considered. The underwriter should also consider the number of recently opened accounts. If there are a significant number of new accounts, the reasons should be investigated.

There are several different credit usage factors considered in evaluating credit: credit history, number of accounts, outstanding debt, delinquency, derogatory credit and inquiries. It is generally not one credit usage factor, but the combination of factors that establish whether or not the overall, pattern of credit use is acceptable.

4.7. Outstanding Debt

Two very important indicators of repayment ability are the number of accounts with sizable outstanding balances and high credit line utilization. The underwriter should consider the number of tradelines with balances reported in the last year. If all tradelines have balances, there is a greater credit risk than if there is little or no outstanding balance on trade lines. The underwriter should further analyze the relationship between total balances and total credit limits on revolving lines. If the outstanding balance is near, at, or above the credit limit on revolved.

4.8. Written Credit Explanations

As a general rule credit explanations are not required, however may be requested at the underwriters discretion if the determination is made that the adverse credit has a significant negative impact on the creditworthiness of the applicant.
An applicant with an unfavorable credit history may be deemed acceptable if the occurrences of adverse credit use do not appear to be typical for the borrower and are due to circumstances beyond the applicant's control. Additionally, the instances should not be indicative of the applicant's negligence or unwillingness to repay.

4.9. Inquiry Certification

Recent inquiries indicate that the consumer has actively been seeking credit. If there are a number of inquiries in the last 30 days an inquiry certification should be completed and signed by the borrower indicating if an account has been opened with balance and payment information if applicable. Accounts opened and not reflective on the credit bureau should be added into the borrower's monthly liabilities and debt to income ratio. A processor certification from the Lender or Broker is alternatively acceptable.

4.10. Delinquency and Derogatory Credit

The underwriter should consider the type of accounts on which the delinquency occurred, the reason for delinquency, the severity of the delinquency, the frequency of delinquent accounts, and how recently the delinquency occurred. More weight is placed on installment loan delinquency than on revolving debt delinquency, with the most weight placed on mortgage payment history.

4.11. Delinquent Accounts

Accounts which are currently delinquent will be closely scrutinized. All past due accounts should be brought current prior to closing, however exceptions may apply. Delinquent credit which belongs to an ex-spouse may be excluded from the credit evaluation when the file contains a copy of the divorce decree which shows the derogatory accounts belong solely to the ex-spouse and lates occurred after the date of the divorce or separation.

4.12. Rolling Mortgage Lates

Rolling mortgage lates (consecutive identical delinquencies) will be reviewed for the last 12 months.
30's: 6 rolling 30's count as 1x30
60's: rolling 60's are not permitted but may be considered on an exception basis for Lenders Choice Tier 4 & 5.
90's: rolling 90's are not permitted. Each month is counted as a separate occurrence.
Mortgages must be current prior to closing.

4.13. Judgments and Liens on Title

All judgments and liens appearing as a matter of record on title must be paid off and discharged prior to or at closing.

4.14. Non-Title Judgments and Liens, Collections, Charge-offs

Federal and/or state tax liens, medical accounts, judgments, collections, or charge offs not effecting title may require payoff depending on program. The age and dollar amount of the delinquent account may be taken into consideration when determining whether it must be paid off. If the actual charge off or collection date is not given the date of last activity should be used. These types of accounts cannot be used to meet minimum consumer trade line requirements. Refer to the Product Matrix' for requirements.

4.15. Bankruptcy

A sufficient time frame as identified in the Product Matrix' must have elapsed after the Chapter 7 or 13 Bankruptcy was discharged, dismissed or completed. Evidence of the discharge is required. Lenders Choice Tier 2 -5 utilizes the filing date for the elapsed time on Chapter 13 Bankruptcies and requires they be discharged. All other programs or tiers utilize the discharge date.

Lenders Choice 1st mortgage program will waive Bankruptcy seasoning with the following criteria:

- 620 minimum Credit Score
- Full Income Documentation Only
- Max DTI 50%
- Bankruptcy must be Discharged
- 12 month verification of mortgage paid as agreed OR 12 months cancelled rent checks to verify paid as agreed (VOR's not permitted)
- Refer to rate sheet for pricing adjustment

Consumer Credit Counseling Service debts (CCC's) are considered the same as Chapter 13 bankruptcies.

4.16. Foreclosures/Deed in Lieu/Short Sale

A sufficient time frame as identified in the Product Matrix' must have elapsed from the date the foreclosure and deed in lieu was completed.

4.17. Lawsuit/Pending Litigation

If application, title, or credit documents reveal that the applicant is presently involved in a lawsuit or pending litigation, a statement from the applicant's attorney may be required. The statement must explain the circumstances of the lawsuit or litigation and discuss the applicant's liability and insurance coverage. A copy of the complaint and answer may also be needed. The title company closing the loan must be informed of the lawsuit or litigation and provide affirmative coverage of our first lien position. This exception can only be given on primary occupancy, purchase or rate/term refinance.

5. Liabilities

The Debt-to-Income (DTI) Ratio is based on the total of the monthly liabilities divided by the calculated gross monthly income. The maximum allowable DTI ratios vary by program – refer to the Product Matrix. Liabilities include all housing expenses, revolving debts, installment debts, real estate loans, rent, stock pledges, alimony, child support and other consistent and recurring expenses.

5.1. Debt to Income Ratios

Lenders Premium Blend has a maximum DTI of 50%.

Lenders Choice maximum DTI's are based on LTV and Income Documentation type. Refer to program matrix/rate sheet for maximum LTV's based on Tiers and Credit Scores.

- Full Income Documentation
  - LTV's < 80% = max 55% DTI
  - LTV's > 80% = max 55% DTI with minimum $1500 disposable income, otherwise max 50%.
- Stated & Limited Income Documentation
  - LTV's < 75% = max 55% DTI
  - LTV's > 75% = max 50% DTI
- Interest Only loans max DTI 50%, regardless of LTV

5.2. Housing Expense

The housing debt expense consists of the amount the borrower will be paying to live in his or her primary residence after loan closing. In most cases this would include the principal and interest payment, property taxes (expressed monthly and including all special tax assessments), hazard insurance, flood insurance, mortgage insurance premium, and any homeowner's monthly association dues or maintenance fees on the subject property. In addition, principal and interest payments on a junior lien will also be included. In some instances, however, the housing payment may not be the PITI of the subject property (such as the purchase of a second home).

5.3. Consumer Debt

Consumer installment debt accounts are loans that have fixed terms. Installment debts appearing on the credit report or those verified directly with the creditor are to be included in the calculation of the total DTI ratio.

- Revolving debt accounts have variable payments and no fixed term. The payment listed on the credit report is used to calculate the total DTI. If no payment is listed 2% (minimum $10) of the balance listed must be used to calculate the DTI unless statements can be proved to show a lower payment. Alternatively, a credit supplement may be obtained to verify the payment. Revolving debt may be paid off to qualify, but should not be paid down. The 10 month or less rule does not apply. Balances less than $100 are not required in the DTI.
- Installment debts, where the term of the debt will be ten months or less at closing will not be considered in the DTI ratio. It is also acceptable to "pay down" the debt enough to cause the term to be ten months or less. If the scheduled payment is not shown, the high credit is divided by the listed term to determine the payment. Alternatively, a credit supplement may be obtained to verify the payment.
- Auto lease payments are included in the DTI ratio regardless of the remaining months indicated on the credit report. Leases should be paid off in their entirety to include the residual end payment, otherwise monthly payment must be included in the DTI.
- If the payment shown on the credit report is disputed, evidence of a lower payment may be obtained via direct verification with the creditor, or with acceptable documentation provided by the borrower.

5.4. Other Real Estate Owned Debt

Real estate debt for investment properties that is not offset by calculations of net rental income will be counted as monthly debt.
If a property is owned free and clear, the current real estate taxes, hazard insurance premiums and HOA fees must be included in the applicant's monthly expenses. Evidence property is free and clear should be in file.
If a property is vacant and there is no verifiable income or history, the full principal, interest, taxes, hazard insurance, mortgage insurance and homeowner's association dues will be counted as part of the totals monthly debt.

5.5. Other Debts

There are several other debts that may not appear on a standard credit report, but should be included in the total debts for qualifying purposes. These debts may include the following:

1. Alimony and/or Child Support debts
2. Student Loans. Payments are included in the DTI – in cases of deferment or no payment provided use 1%.
3. Wage garnishments
4. Co-signed obligations. Exclusion of this debt will be considered with six months cancelled checks evidencing paid by other party and timely payment has been made for the last 12 months.

5. Business Debt, which has been personally guaranteed by the borrower. When a self employed borrower claims that a monthly obligation that appears on his or her personal credit report is being paid by the borrower's business, there should be evidence in file via 12 cancelled checks from the business to exclude the debt from the DTI ratios. When the account in questions has a history of delinquency it must be included in the DTI.

6. Employment and Income

6.1. Employment History

Generally, the greater the job tenure and stability, the greater the borrower's ability to repay obligations in a timely fashion. Employment must be stable with at least a two-year history in the same job or jobs in the same or related field. Self-employed applicants must have been in business for at least two years. Other circumstances may also be acceptable as outlined in this section. Refer to applicable Product Matrix for possible variances.

6.2. Frequent Job Changes

An applicant who changes jobs frequently to advance within the same line of work should receive favorable treatment if this can be verified. Frequent job changes without advancement or in different fields of work should be carefully reviewed to ensure consistent or increasing income levels and likelihood of continued stable employment.

6.3. Gaps in Employment

Typically job gaps should not exceed 30 days, however a maximum 90 day gap may be acceptable if for medical reasons. Applicants should explain, in writing, any job gaps that exceed one month. This explanation will be reviewed for reasonableness.

6.4. Disposable Income

Disposable income is the amount of income remaining after the borrower has paid all expenses including taxes, housing payments and all long-term liabilities.
Lenders Premium Blend requires a minimum household disposable income of $1200 per month. Exceptions may be considered.
Lenders Choice requires a minimum $750 household disposable income prior to any allowable fixed income grossing up. Exceptions may be considered with an attorney's opinion letter addressing the borrowers net tangible benefit.

6.5. Source of Income

Applicants will be qualified based on calculated Stable Monthly Income. Stable Monthly Income consists of those amounts and sources which are reasonably expected to continue. Income may be obtained from a variety of sources such as salary, bonus, commission, self-employment, etc. Typically, if the income can be verified as received for a reasonable time period (i.e. two or more years) and is likely to continue for at least three more years (refer to Product Matrix' for details/variations), the income may be used as qualifying income.
Each source of income must be reviewed with regard to the applicant's ability to service his/her total debt obligation. Varying types and levels of income documentation may be necessary for different types of income and programs. Refer to applicable Product Matrix'.

6.6. Annuity Income

Annuity income may be used as qualifying income if properly documented and expected to continue for at least three years. Acceptable documentation includes a copy of the award letter.

6.7. Automobile Allowance

Automobile allowances will be considered acceptable income provided receipt of income has been documented for the previous two years and income is likely to continue. Qualifying income is the verified allowance minus all unreimbursed business expenses as reported by the borrower in their personable tax returns on IRS schedule 2106. If result is positive, allowance may be added to qualifying income. If result is negative, qualifying income must be reduced accordingly. Car payments are always included in the ratios.

6.8. Bonus and Incentive Income

To establish bonus earnings for loan qualification purposes, written verification from the employer must define the dollar amount paid during the past 12 months, the basis upon which the bonus is computed and the employer's projection for future continuance of the bonus.

6.9. Capital Gains

Capital gains earned from the sale of assets (including mutual funds but generally excluding sale of real estate) will be considered Stable Monthly Income if the Borrower has a two-year history of earning capital gains and sufficient assets to continue generating similar earnings. Federal tax returns for the past two years should be provided. Income will be averaged over the past 24 months provided income continuity is expected.

6.10. Child Support, Alimony or Maintenance Income

A copy of the divorce decree, separation agreement or any other legal documents must be submitted to verify the amount and its continuance for three years from the date of closing for any child support, alimony or maintenance income. Evidence that such amount has been received for a minimum of 6 months is required. Payments must have been received in a timely manner to use for qualifying.

6.11. Commission Income

Commission income will be considered as Stable Monthly Income if it has been received for two years and is likely to continue.
Federal tax returns for the previous two years, including W2's, 1099's and all supporting schedules, must be provided in order to document income. If more than 90 days have passed since year-end, year-to-date statements verifying commissions paid should be provided.

6.12. Disability Income

Disability benefits may be used as qualifying income if a two year history of receipt has been documented with a minimum of three years continuance. Benefits should be verified with a copy of the award letter supported by two years receipt and current evidence of receipt (current paystub or evidence of direct deposit into savings account). The award letter must indicate the benefit amount, length of time the benefits will be received.
Disability received from the Social Security Administration (SSA) does not require evidence of a three year continuance, however should be verified with a copy of the award letter supported by two years receipt and current evidence of receipt (current paystub or evidence of direct deposit into savings account).

6.13. Dividend/Interest Income

Investment income may be used as Stable Monthly income if the file contains the following evidence:

1. The income has been received for at least 24 months
2. Year-to-date income is in line with previous earnings
3. The investment is from a publicly-traded company(s)
4. Borrower has a diversified portfolio
5. Verification of stock asset values no older than 30 days at underwriting

6. Sufficient assets remain after closing to continue to generate an acceptable level of earnings. Income may be documented with signed federal tax returns for the previous two years. Other documentation such as year-to-date statements from a financial institution may be considered on a case-by-case basis.

The cash/stocks/bonds producing this dividend/interest income may not be used as a source for down payment and should not have been previously pledged as security.

6.14. Employed by a Relative

Income for borrowers that are employed by a relative must be verified using paystubs and prior two years W2's. Written VOE only is not permitted. In the event the borrower owns more than 25% of the company, full self-employed documentation must be provided.

6.15. Foster Care Income

Income derived from foster care payments may be considered if it is regular, recurring and likely to continue. Generally, a two-year history of past receipt is required. Income used to qualify must be averaged over a two year period. Projected income may not be used.

6.16. Installment Sales and Land Contracts

Verified income from installment sales, land contracts, contracts for deed, mortgages, etc., may be used provided the minimum remaining term of such income is three years. Federal income tax returns showing the income should be used to document a history of regular receipt of the income along with applicable agreements/contracts.

6.17. Military Income

Borrowers employed in military services typically receive compensation in addition to base pay which may be used as qualifying income. Rations, base housing pay, flight pay may be acceptable provided the income is typical for the position held, it is likely to continue and fully documented. Borrowers called to active duty before loan closing must be qualified on military income.

6.18. Note Income

Note income may be used as qualifying income if received for at least 12 months and expected to continue for at least three (3) more years. Acceptable evidence includes a copy of the note and the previous year's federal tax returns to evidence receipt of income or copies of bank statements to evidence deposit of note income received.

6.19. Non-Taxable Income

Non-taxable income may be "grossed up" 25%. Underwriting reserve the right to require evidence income is non-taxable. Non-taxable income includes but is not limited to:

1. Child support
2. Social security income
3. Disability income

6.20. Part-Time/Second Job and Overtime Employment

Part-time and overtime income will be considered as stable income if it has been received for the previous 12 months and has a strong probability for continued receipt at current or increasing levels.

6.21. Rental Income

Verification of real estate income requires copies of all current, fully executed leases for all rental units or the last year's tax returns including Schedule E indicating all units. If tax returns are provided, the actual information from the tax returns will generally be used. For qualifying unless indicated otherwise in the Product Matrix, 75% of the verified rental income from rental/lease agreements will be used minus mortgage payments (if any), monthly taxes and insurance(s), home owners associates dues. If the cash flow is positive, it may be added to the borrower's income. If the cash flow is negative it must be added to the borrower's long-term debt payment.

In cases with a two to four unit owner-occupied property (subject property): 75% of rental income derived from non-owner occupied units should be added to applicant's monthly income. The monthly housing expense to income ratio should be calculated by using the total PITI for the subject property. Stated income is not permitted for unearned/passive income. Lease agreements must be provided to utilize income.

In cases where the borrower is renting out their existing residence to purchase another, Aapex requires the fully executed lease agreement along with verification of the security deposit per the lease. Satisfactory evidence would consist of a copy of the cashiers check, money order or cancelled check from the tenant.

6.22. Salaried/Wage Earner Income

Salaried income is verified using current paystubs covering a 30 day period, W2s covering the most recent two year period or direct written verification from employer. Refer to Product Matrix' for specific documentation requirements for full and limited documentation requirements by program.

6.23. Seasonal Income

Some borrowers may regularly work part-time jobs during certain times of the year (i.e. every Christmas or summer). Income from seasonal employment may be considered a Stable Monthly Income if the applicant has worked the same job "in season" for the past two years and expects to be rehired for the next season. Verification should include W2 forms for the previous two years and a verification of employment. If borrower is employed by a party involved in the transaction (i.e. employed by seller or real estate agent), two years personal federal tax returns will be required.

6.24. Self-Employed Income

A borrower who owns 25% or more of the company from which he receives his primary source of income will be considered self-employed Income. The business may be a sole proprietorship, a partnership (limited or general) or a corporation.

- Generally, self-employed borrowers should be in business for at least two consecutive years. The income of the self-employed borrower will be averaged over the two years immediately preceding the date of the application.
- When calculating a borrower's self-employment income, the underwriter should detail the method of calculation on the Underwriting Analysis Form or a separate worksheet. Often when analyzing a borrower's federal tax returns, non-cash items such as depletion and depreciation may be added back to the adjusted gross income. In addition the overall viability of the business should be reviewed.
- Financial Statements and business tax returns are used as supporting documentation for income continuation at the same level as shown on the individual federal tax returns. Projected income may not be used to qualify a borrower.

A description of business entities and typical documentation requirements are:

- 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. Current YTD P&L and 2 years 1040's required.
- Partnership (General): 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. Current YTD P&L, 2 years 1040's, K-1's and 1065's are required.

• Partnership (Limited): 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. Individual partners pay taxes on their proportionate share of net partnership income at their individual tax rate. Current YTD P&L, 2 years 1040's, K-1's and 1065's are required.
• S Corporation: An S Corporation is generally a small, start-up business 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. Current YTD P&L, 2 years 1040's, K-1's and 1120S's are required documentation.
• Corporation: 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. Current P&L, 2 years 1040's and 1120's required.

6.25. Social Security and Retirement Income

These types of income can be verified with an award letter, tax returns or bank statements evidencing regular monthly deposits. Social security survivor benefits must continue for at least three years in order to be used as income.

6.26. Tips and Gratuities

Tips and gratuity income may be acceptable if receipt of such income is typical for borrower's occupation (i.e. waitperson, taxi driver, etc.). Income should be received for at least 12 months and expected to continue. Income will be averaged over the time period verified.

6.27. Trust Income

Trust income may be used if the trust is non-revocable and the income will continue for at least three years. A copy of the Trust agreement or the Trustee's statement confirming the amount, frequency and duration of the payments should be obtained to verify the income and continuance of the income.

6.28. VA Survivors' Benefits/Dependant Care

Income is acceptable if received for at least 12 months and expected to continue for at least three years. A copy of this award letter outlining the duration and amount of payments should be provided.

6.29. Ineligible Income Sources

- Deferred income not currently available
- Education benefits
- Illegal income
- Rent from borrower's primary residence after closing or second home
- Retained earning in a corporation
- Temporary income or from an unknown origin
- Unemployment compensation
- Unverifiable income
- Welfare benefits

7. Income/Employment Documentation Types/Requirements

7.1. Age of Income Documentation

Income documentation should not be older than 45 days from time of loan closing.

7.2. Income Documentation Requirements

Also refer to Section 6 of these guidelines for detailed requirements by income type.

7.2.1. Evidence of Self Employment

Evidence of self employment is required on stated income loans and cases where personal bank statements are used for qualifying.
A business license(s) or CPA/Tax Preparer letter (verified by 411or directory listing) are acceptable to document existence and history of self-employment along with current evidence via a directory listing of the business.

7.2.2. Paystubs and W2's

When the Paystubs and W2's are provided for income and employment verification, the documentation must meet the following criteria:

- Be type written or computer generated
- Contain:
  - Borrower's full name
  - Borrower's social security number
  - Employers name
  - Year-to-date earnings (applicable to Paystubs)

7.2.3. Personal Bank Statements

When guidelines permit personal bank statements may be used for wage earners and/or self employed borrowers. The following should be taken into consideration and is typically at the underwriter's discretion.

- Large deposits or transfers should be investigated and may at the underwriter's discretion require subtracting from the income calculation.
- Multiple or repeated non-sufficient funds (NSF's) on the borrower's bank statements should be evaluated.
- Bank statements must be submitted in the borrower's name only. Statements that show another individual as co-signor on the account may be considered only if the non-borrower's income can be deducted from each month's income/deposits. The deductions must be supported by verifiable documentation. Co-mingling of funds is not allowed.
- In instances where rental income apply the borrower should fully debt service the PITI of the rental property payments as it is difficult to know if the rental cash flow is running through the account.

Business bank statements are not permitted.

7.2.4. Tax Returns

Tax returns used for qualifying should be signed by the borrower(s) as a method of validation along with an executed 4506 at time of loan closing.

7.2.5. Verbal Verification of Employment (VVOE)

Verbal verifications of employment are required on all loans. VVOE's should meet the following criteria:

- Must be completed within three (3) days of closing/disbursement.
- Must confirm borrower(s) is currently employed
- Verification the employer's company telephone number is verified through directory assistance.
- Call should be placed to Human Resources or Payroll to verify borrowers hire date, position and probability of continued employment.

• In cases where the company name is not listed in directory assistance a licensing search to obtain the company phone number is acceptable. If the telephone number cannot be verified via these two sources the underwriter/funder may require additional documentation.

7.2.6. Written Verification of Employment

Written verification of employment must be completed in there entirety:
• Name of the employer, address and date of verification
• Identification of the employer's representative providing the information, their title, telephone number and date document completed
• Date of borrower employment and current position title
• Currently monthly salary or hourly wage with average hours worked
• Year to date earnings with previous two years earnings.

7.3. Full Income Documentation

Wage Earners. Verbal VOE required
- Paystub (computer generated with YTD) & 2 years W2's OR
- Paystub (computer generated with YTD) & 2 year Written VOE OR
- 2 years personal bank statements (Lenders Choice permits 12 months)

Self Employed
- Year to date Profit and Loss, 2 years 1040's, executed 4506 at time of closing OR
- 2 years personal bank statements (Lenders Choice permits 12 months), evidence of self employment required

7.4. Limited Income Documentation

Wage Earner. Verbal VOE required
- Written VOE with 2 year earnings OR
- 6 month YTD paystub OR
- 6 months personal bank statements

Self Employed
- 6 months personal bank statements with evidence of self employment

7.5. Stated Income Documentation

Income is stated by the borrowers on the FNMA 1003 loan application. But not verified. A "Reasonableness Test" is applied to the stated income to ensure that it is appropriate for the job description. Stated income is only permitted for wage earners and self employed borrowers. Unearned/passive income must be documented.
Wage Earners: A verbal VOE is performed to validate current employment and verify the length/history requirement.
Self Employed: Evidence of self-employment
Unearned/Passive Income: Income received from non-employment sources are not eligible for stated income. Unearned/Passive income must meet the receipt requirements of Section 6 (full income documentation) and be expected to continue for at least 3 years. Documentation of income is required. Below are examples of Unearned/Passive Income:
- Child Support, Alimony or Maintenance Income
- Annuity Income
- Capital Gains

- Disability Income
- Dividends/Interest Income
- Foster Care
- Installment Sales and Land Contracts
- Note Income
- Rental Income
- Trust Income
- VA Survivors' Benefits/Dependant Care

8. Assets and Source of Funds

8.1. Source and Seasoning of Funds

Generally source and seasoning of funds to close are not applicable to Aapex first mortgage products.

8.2. Seller Concessions/Interested Party Contributions

On purchase transactions, interested parties (seller, builder, real estate agent, etc.) may contribute toward closing costs including prepaids. Any costs that are normally the borrower's responsibility are considered sales concessions if the seller of the property pays them or offers the concession in the form of a credit. The maximum is based on occupancy and allows for recurring and non recurring closing costs:

- Owner Occupied 6%
- Second Home 3%
- Non Owner Occupied 3%

9. Appraisal/Property

In reviewing appraisals common sense prevails. The two main focuses are to ensure the property itself is acceptable and meets guidelines while ensuring the value of the property is supported.

9.1. Appraiser Qualification

Real Estate Appraisers are to be state-certified or state-licensed according to the Code of Federal Regulations.
Additional appraisal reviews may be required based on loan size, property characteristics or transaction parameters. When a review appraisal is required by the underwriter, the review appraisal must be completed by an appraiser listed on Aapex's Approved Appraiser List.
Loan amounts or combined loan amounts at or above $650,000 require two full appraisals. If the second appraisal is completed by an approved Aapex appraiser, a review will not be required.

9.2. Appraisal Report Forms

For uniformity and efficiency, all appraisers are required to use appraisal report forms that are acceptable to FNMA/FHLMC. Depending on property type and occupancy the following report forms should be used:

1. Uniform Residential Appraisal Form, FNMA Form 1004; or
2. Small Residential Income Property Appraisal Report, FNMA Form 1025;
3. Individual Condominium Unit Appraisal Report, FNMA Form 1073

The following items must be contained in the appraisal report:

1. A street map showing the location of the subject and all comparables used.
2. An exterior building sketch of the improvements indicating dimensions. A floor plan sketch is not required unless the floor plan is functionally obsolete resulting in a limited market appeal for the property in comparison to competitive properties in the neighborhood. For

units in condominium or cooperative projects, interior perimeter unit dimensions are required instead of exterior building dimensions.
3. Original color photographs (digital permitted) of the front, street and rear views of the subject property and the front view of each property used as a comparable. Black and white photos are not acceptable.
4. Interior photos of the subject are required in two instances:
    a. To support statements regarding recently completely repairs or improvements when necessary.
    b. To identify conditions of deferred maintenance.
5. Single-Family Comparable Rent Schedule, FNMA 1007 for non-owner occupied single-family dwellings & Operating Income Statement, FNMA 216 for one to four-unit properties are required unless:
    a. Borrower qualifies with the entire PITI included in the ratios.
    b. Tax returns for the previous two years have been provided and borrower qualifies based on the net cash flow as indicated on the 1040's.
    c. LTV is 60% or less with current lease agreements.
6. Any other data-as an attachment or addendum to the appraisal report form – necessary to provide an adequately supported estimate of market value.
7. Satisfactory Completion Certificate (442) if applicable.
8. Three years of sales data on subject and all comparables.
9. Appraisals with digitized signatures are acceptable provided the appraiser notes the signature is digital and the appraisal is unaltered. Photos must be in color.

10. Certification and Statement of Limiting Conditions, FNMA Form 1004B

9.3. Age of Appraisal

Appraisals over 120 days will require a recertification of value and a new appraisal if over 180 days. All re-certifications of value should be completed by the original appraisal.

9.4. Property Overview

Residential property requirements:
1. Improved real property
2. Fee simple
3. Designed and available for year-round residential use.
4. Complete with kitchen and bathroom facilities
5. Heated by a continuously-fueled heat source which is permanently affixed to the real estate. Alternative heat sources are acceptable when marketability has been demonstrated.
6. Subject must have city or county maintenance service, water and public electricity
7. Property must be in better or average condition
8. Use of property must represent the "highest and best" use of the subject
9. Public street access, if private road an easement and maintenance should be provided
10. Property must be free of all health and safety violations. If security bars on windows, at least one window per room must have a release latch. If sliding glass door two stories up with no balcony a 442 will be required as well.

9.5. Eligible Property Types

- SFR (attached or detached) - min 2 bedrooms
- Condominiums – min 1 bedroom
- PUD
- 2 Units
- 3-4 Units (Lenders Choice only)
- Modular (Lenders Choice only)

9.5.1. Planned Unit Developments (PUD)

A PUD is a property where each unit owner has title to a residential lot and building and generally a non-exclusive easement on the common areas of the project. The owner often pays monthly homeowners association (HOA) fees as part of the project.

9.5.2. Condominiums

A form of ownership in which the interior space is individually owned. The balance of the property, both land and building is owned in common by the owners of the individual units. Building types may be low-rise (less than four stories) or high-rise (over four stories), attached and detached.

Projects must meet the following requirements:

- 1 bedroom units that are typical and common in the subject’s market area are eligible
- Subject unit must have at least 650 square feet of living space.
- At least 60% of the total sold units are owner occupied or second homes. Exceptions to this may be considered for the Lenders Choice Program or if loan in question has a low LTV.
- Maximum of 10% of the project is owned by one entity.
- Commercial use of the project may not exceed 25%.
- Minimum of 50% of the units in the phased development must be sold.
- Projects involved in litigation are typically ineligible, however if litigation is minor
- pertaining to common area’s only, exceptions may be considered.
- Homeowners must be in control of the HOA. Exceptions may apply to newly constructed Condo Projects
- All projects must be in compliance with all applicable state or local laws.
- Homeowner’s Association must be incorporated in the state in which it is located

Condo conversions are eligible provided the conversion is completed, has nice design/appeal and a minimum of 50% are pre-sold and owner occupied.

9.5.3. Limited Marketability/Unique Homes (Lenders Choice – Exception basis only)

Properties with demonstrated limited marketability, an unusual structure or unconventional floor plan are typically ineligible for financing, but may be considered on an exception basis by Management at reduced LTV's. Marketability, conformity to the area and acceptable comparables are important considerations.

9.5.4. Log Homes (Lenders Choice – Exception basis only)

Log Homes may be considered on an exception basis by management for the Lenders Choice program. The following will be considered:

- 10% LTV reduction
- Marketability, conformity to the area and acceptable comparables are important considerations
- Interior walls must be dry walled

9.5.5. Modular Homes (Lenders Choice Only)

Modular homes are constructed in two or more sections. The sections or components are transported to the property site for final assembly. Although a modular home may be transported on a steel undercarriage, the undercarriage is not a permanent structural component and is removed when the home is placed on a permanent foundation. Strapped and pier foundations are not permissible. Modular homes are only offered for the Lenders Choice Product – LTV restrictions apply.

9.5.6. Rural Properties (Lenders Choice Only)

Rural properties will be considered on an exception basis by Management with LTV reductions. Any property indicated on the appraisal as rural or containing one or more of the following characteristics will be considered as a rural property:

1. Neighborhood is less than 25% built-up
2. Area around the subject is zoned agricultural
3. The photographs of the subject show a dirt road
4. Comparables are more than five miles away from the subject
5. Subject is located in a community with a population of less than 25,000
6. Distance to schools and/or amenities is greater than 25 miles
7. Subject property and or comparables have lot sizes greater than 10 acres
8. Subject property and or comparables have outbuilding or large storage sheds

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Rural properties are eligible for the Lenders Choice program and require a 10% LTV reduction with a maximum of 80% LTV for stated income loans (exceptions may be considered with strong compensating factors).

9.6. Ineligible Properties

Ineligible properties include but are not limited to:

- Boarded up properties
- Buildings or projects with non-conforming use of land where zoning prohibits rebuilding in the event of total or partial destruction
- Commercial properties
- Condotels
- Cooperatives
- Dwellings containing more than four units.
- Manufactured or mobile homes
- Mixed use properties
- Properties located in a coastal barrier resource system, federally declared wetlands or other federally protected areas
- Properties that are landlocked
- Properties that are subject to hazards, noxious odors, etc.
- Properties which represent an illegal use under zoning regulations.
- Property used primarily for agriculture, farming or commercial.
- Timeshares
- Unique Home or Limited Marketability properties
- Vacant land
- Vacant properties on refinance transactions

9.7. Property Seasoning

9.7.1. 24 Month Chain of Title Requirement

Aapex requires a 24 month title history to detect unwarranted value increases typically involved in property flipping schemes. Acceptable Sources for Title Transfer Verification:

- Title Commitments
- Copies of recorded title transfer deed(s)
- Third-party database sources such as DataQuick, SiteX, etc.
- If the current owner has owned the subject property for at least 24 months, as evidenced by the title work (the mortgage date or title transfer information) no further documentation is required.

Note: The appraisal is not an acceptable verified source to support transfer information.

9.7.2. Existing Ownership (Refinances)

The lower of the appraised value or purchase price will be used to calculate the LTV/CLTV of properties owned less than 6 months.

Properties owned more than 6 months but less than 12 may use the current appraised value allowing up to 30% appreciation with a supporting field review. An enhanced desk review is acceptable for properties with less than 15% appreciation. Review must fully support value (variances not permitted). Mortgage/rent should be paid as agreed in the last 12 months. Cash out restrictions may apply.

Lenders Premium Blend Program requires a minimum 620 credit score for properties seasoned 6-12 months where appraised value is used.

To use appraised values on properties seasoned 6-12 month for the Lenders Choice program the subject must be owner occupied, SFR, Condo or 2 units.

9.7.3. Purchase Transactions

If the current owner (seller) purchased the property within the past 12 months and the value increase is reasonable (generally not to exceed 30%) or the reason for value increase is substantiated by documented improvements (use purchase price plus cost of improvements to determine the value), no further action is required.

If the value increase is substantial or the reason for the increase is not supported, underwriting will require the value be based on the original transfer date. Properties with multiple transfers in the past 12 to 24 months should be reviewed closely.

Management may consider exceptions in cases where the seller purchased the subject as new construction.

9.7.4. New Construction (Length of Seasoning)

Newly constructed properties may use the preconstruction contract date for seasoning purposes, provided they are the first party involved in the transaction (buyer or seller).

9.8. Above-Grade Room Count/Gross Living Area

Finished above-grade areas should be included in total gross living area (square feet). Basement and other partially below-grade areas should be reported separately and adjusted according.

9.9. Dampness

If the appraisal report notes evidence of dampness, the appraiser must clearly define the effect on value and marketability of the subject property, as well as comment regarding the probable cause of the dampness problem and if typically incurable. Should the dampness problem indicate a structural deficiency and/or significant negative impact on value and marketability, the cause of the dampness must be corrected prior to closing.

9.10. Deferred Maintenance

Properties must be in average or better condition. Deferred maintenance may be permissible provided the neglected item is not structural in nature or a health and safety issue. Deferred items may be left “as is” if the cost to correct doesn’t exceed the lesser of $2000 or 2% of the properties value.

9.11. Escrows for Work Completion

Escrow hold backs are generally not permitted, but may be considered on an exception basis by Management for minor repairs provided that incomplete improvements do not affect the habitability of the subject. Major improvements such as a room addition are not allowed. Work in progress is not permitted other than for cosmetic purposes.

9.12. Environmental Hazards

The appraisal report should note the existence of known environmental hazards and its affect on value and marketability of the property. Properties located adjacent to or containing environmental hazards are ineligible for financing. Environmental hazards include but are not limited to:

1. Evidence of radon above EPA safety levels which is left untreated.
2. Properties built on or near toxic waste dumps, clean up sites, etc.

9.13. Foundation Settlement

If the appraisal report notes evidence of excessive settlement, the appraiser must clearly define the effect on value and marketability of the subject property. Settlement problems which denote structural deficiencies and/or significant negative impact on value and marketability must be corrected prior to closing. A structural engineers report may be required.

9.14. Heating Systems

Properties must be heated by a continuously fueled heat source which is permanently affixed to the real estate. Alternative heat sources are acceptable when marketability has been demonstrated.

9.15. Leasehold Properties

Leasehold properties will be reviewed on an exception basis by management. The terms must be typical and customary for the market. Leaseholds will be reviewed for compliance with the following:

1. Property is located in an area where leaseholds have received market acceptance.
2. Mortgage must cover the borrower's leasehold interest in the land.
3. Title policy may not issue an exception to the leasehold estate, Aapex must be insured in first lien position.
4. The lease and any sublease (including all amendments thereto) are recorded in the appropriate public land records.
5. The lease is in full force and effect.
6. The lease is a lease of the fee or a sublease executed by both the fee owner and the sublessor.
7. The instrument creating the lease, sublease or conveyance reserving ground rents is a form commonly accepted in the subject's market area by private institutional lenders. Lease may not prohibit the rebuilding of the subject in part or whole or for termination of the lease in the event of partial or full destruction of the premises.
8. For subleaseholds, the amount of the sublease payments is at least equal to the amount of the lease payments. The sublease payments are due no less frequently than the lease payments.
9. Term of lease to extend at least beyond the term of the mortgage unless lease contains a provision for future vesting of the land to the borrower or homeowner's association.
10. Must be fully assignable or transferable to any subsequent owner without the lessor's consent.
11. Provide for release of an assigning lessee (or sublessee).
12. May not contain default provisions that could give rise to forfeiture or termination of the lease except in the event of non-payment. It should also guarantee the lender of the notice of default as a condition of validity of the Notice of Default and allow the lender at least 30 days to cure and take over the borrower's rights. Provide for a new lease of the same priority to be given to the leasehold mortgagee if the lease terminates because of default6 not curable by the leasehold mortgagee, or provide for no termination for noncurable default as long as no default in rent exists.
13. May include, but not required, a provision for the borrower to purchase the leasehold at a later date. Additional requirements may apply.
14. Leases may be offered with or without limitation on increase and decrease on the monthly rent. If lease payment is tied to an outside index, the initial rent should be established as a percentage of the land's appraised value at the time the lease is executed.

15. An increase in the lease payments (or sublease payments, if applicable) during the term of the loan and within five years after the maturity date of the loan must be for a specified amount at a specific date. During this period, increases based on the cost of living index or other indices or reappraisal are acceptable if the amount of such increases is subject to a max limitation.
16. Lease may allow the lender to purchase the land and all of the other remaining interests of the lessor at the purchase price stipulated in the lease.
17. If the option to purchase the lease is exercised, it must become a lien on the title in the same place as the leasehold.
18. The lease (or sublease) may not contain a provision which prohibits the mortgaging of the premises.
19. The lease must permit the leasehold mortgage security to be insured under a hazard insurance policy and provide for payment of hazard insurance proceeds to the leasehold mortgagee or insurance trustee.
20. Lease must provide for payment to the leasehold mortgagee (or trustee for restoration in the case of partial awards) of a condemnation award to which the lessee is entitled. This payment must not be less than the total award minus the value of the land considered as unimproved.
21. Lease must provide that in the event of partial taking, the lessee (or sublessee, if applicable) will rebuild and restore the improvements on the mortgage property, unless the leasehold mortgagee consents to the distribution of the proceeds instead. (The proceeds must be applied first towards reduction of the leasehold mortgage debt).
22. Lease must provide for leasehold mortgagee's right to acquire the lease in its own name or in the name of a nominee upon foreclosure or assignment in lieu of foreclosure.
23. Lease must provide for the leasehold mortgagee's right to exercise any renewal options that may exist.

9.16. Lot Size

The maximum site size is five (5) acres. The property itself may be up to a maximum 10 acres, however the appraiser can only value 5 of the 10 acres. One (1) acre = 43,560 square feet.

9.17. Obsolescence

There are three types of obsolescence that should be addressed by the appraiser. Discretion should be used as to the severity and effect it may have on the property or value.
1. Functional Obsolescence: Functional obsolescence should be addressed by the appraiser as it reflects the inability of a structure to perform its current function adequately. These inadequacies may be attributable to such factors as the architecture, design and layout, and traffic pattern, or to the size, purpose, and location of rooms**.** Examples:

    1. Bedrooms and baths on different levels
    2. Access to one bedroom only through another bedroom
    3. Holding tanks for water storage

2. External Obsolescence: External (economic) obsolescence reflects the loss of use and/or value of a property arising from factors external to the property. Some common examples are:

    1. Adjacent shopping centers or freeways
    2. Poorly maintained neighboring houses
    3. Unattractive natural features, such as swamps or polluted water

3. Physical Obsolescence (Deterioration): Deterioration in the physical condition of the property causes loss in the utility (and thus value). Excessive physical obsolescence, such as broken stair wells or peeling paint, usually result from lack of maintenance.

9.18. Over Improvements

Properties are considered over improvements when the improvements are too large or too lavish for the neighborhood. I.e. a 4000 square foot property in a neighborhood of 2000 square foot homes.

9.19. Properties Listed for Sale

Properties currently listed for sale, or listed for sale within the past six (6) months are not eligible for refinance transactions. The six month passage of time is based on the cancellation date. A copy of the executed listing agreement/cancellation and in some instance a letter of explanation for the original intent to sell and reason for cancellation may be required at underwriter's discretion.

9.20. Room Additions

In cases where a room addition has been added to the original structure or a conversion has occurred a copy of the permits are required to evidence addition/conversion is legal. If the appraiser indicates that the conversion/addition is permitted – copies would not be required.
If for example a garage was converted to living space however no permits were obtain the appraiser would be required to value the property with out the conversion. The appraiser would also need to estimate the cost to cure for a reconversion in the valuation.
No adjustment to property value would be required if the appraiser were to obtain comparables in the neighborhood that are the same as the non-permitted living space. If the appraiser cannot provide comparables with similar living space then the room(s) would be valued at their original use.

9.21. Certifications and Inspections

Termite, well, water, septic or roof inspections are only required if called for in the purchase contact or when recommended by the appraiser. The inspections/certifications should only by performed by licensed professions in that related field or in some cases a qualified representative from the local municipality. If the inspection recommends corrective action the deficiency must be cured with evidence in file.
If the appraiser indicates that operations systems or a portion of the structure is reaching the end of its physical life or utility, there must be a certification that the remaining life is at least 3 years.

9.22. Zoning

Residential is the appropriate zoning classification for most properties to be purchased. Other applicable zoning is as follows:

- Legal non-conforming zoning is allowed, provided that a 100% rebuild letter has been obtained from the municipality or verification from the appraiser has been obtained which states that the property can be rebuilt to its current status on its existing footprint in the event of total or partial destruction.
- Residential properties in areas that are zoned either agricultural or commercial may be considered on a case-by-case basis so long as their location does not impact marketability and they are consistent with the neighborhood.
- Illegal, Industrial or Manufacturing zoned properties are ineligible.

10. Value Consideration and Analysis

10.1. Neighborhood Analysis

- The neighborhood section should contain an accurate description of the subject's neighborhood and any factors about the neighborhood that may influence value. Specific neighborhood characteristics including the following:
- Degree of development
- Demand and supply

- Present land use
- Owner-occupancy
- Price range and predominant value
- Age of property
- Appeal to market and marketing time

10.2. Compatibility of Subject Property and Neighborhood

The age and price of the subject property should generally be within the age and price ranges of properties in the subject neighborhood as reported on the appraisal report form. Neighborhood factors indicating compatibility of the subject, such as present land use, predominant occupancy, and anticipated change in present land use as reported on the appraisal form will be considered. The actual value should typically be within the predominant value range.

10.3. Market Approach (Sales Comparison Analysis)

Market value is defined as: The most probable price which a property should bring in a competitive and open market. Value is estimated by Analyzing sales prices of similar properties (comparables) recently sold.

10.4. Bracketing

The appraiser should try to select at least two comparable properties that bracket the subject property in terms of identifiable characteristics; a third comparable should be similar to that of the subject property. Through the adjustment process, the superior comparable adjusts downward to the subject property and the inferior comparable adjusts upward. The comparable property most similar (of the three comparables) to the subject property requires few, if any adjustments. In choosing comparable properties for bracketing purposes, the appraiser should select properties that best support the subject property as its final market value.

10.5. Adjustments to Comparable Properties

The subject property is the standard against which the sales of comparable properties are evaluated and adjusted.

- If an item in the comparable property is superior to its counterpart in the subject property, a minus (-) adjustment is made to bring that item into equality with that of the subject property.
- If an item in the comparable property is inferior to its counterpart in the subject property, a plus (+) adjustment is made to bring that item into equality with that of the subject property.

The comparable properties are always adjusted to the subject property. Selecting comparable properties may involve using sales that require several one-way adjustments. The proper selection of comparable properties minimizes both, the need for, and the size of, dollar adjustments. Numerous adjustments, whether or not the subject property is bracketed, indicate that the comparable properties are not truly similar to the subject property. Dollar adjustments should reflect the market reaction to the dissimilarity, as the number of adjustments for dissimilar items increases, the accuracy of specific comparable properties become less reliable.

10.6. Proximity to Subject

The description of the proximity of comparable properties to the subject property must be specific (i.e., 2 blocks).

- In urban areas, a comparable property should be in the same neighborhood and usually no more than 5 blocks and usually no more than half mile from the subject. If a comparable property beyond these parameter is used or comps are on the other side of a major street, freeway, river etc. the appraiser should explain why this is necessary.
- In Suburban areas, a comparable property should be in the same Neighborhood or Subdivision and usually no more than one mile from the subject property. If a comparable property beyond these parameters is used or comps are on the other side of a major street, freeway, river etc. the appraiser should explain why this is necessary.

• In rural areas (if permissible), a comparable property may be acceptable even if it is several miles from the subject property (usually no more than 5 miles). However, if the comparable property is more than five miles from the subject property, the appraiser should explain why it is necessary to use this comparable.

10.7. Sales Price

The sales price of each comparable property should be within the general range of the subject's price.

10.8. Date of Sale/Time

The appraisal may include more than three comparable properties, but at least three must be actual, closed sales. Generally, the appraiser should use comparable sales that have been closed within the last 6 months. However, older comparable sales may be used as additional supporting data if the appraiser believes it is appropriate. The appraiser must explain in writing why comparable sales older than six months are used.

10.9. Price/Living Area

The value per square foot of each comparable property should be in the same range as the subject.

10.10. Sales Contributions or Financing Contribution

The dollar amount of contributions (also called concessions) funded by the seller must be reported for the subject and comparable properties when the information is reasonably available. All contributions, whether typical or not for the market, require the appraiser to consider the market influence and whether an adjustment is necessary. While the appraiser must report and consider all contributions, an adjustment will not necessarily be made if the market does recognize the monetary value for the contribution.

10.11. Living Area/Room Count

The room-count and total living area should be similar for the subject and all comparable properties. A six-bedroom comparable used to support the value of a three-bedroom subject property is generally not acceptable. A significant difference in square footage should be addressed by the appraiser because this raises doubts about the validity of the comparables.

10.12. Evaluating Adjustments to Comparable Prices

The following guidelines should be used in making adjustments to comparable properties:

• The dollar value of the net adjustment of each comparable property should not exceed 15% of its sale price.

• The dollar value of the gross adjustments of each comparable should not exceed 25% of its sales price. (The gross adjustment is determined by adding all individual adjustments without regard to the plus and minus signs).

If any of the above dollar values are exceeded or if there are any ambiguous line adjustments over 10% of the comparable property's sales price, the appraiser is required to explain the reasons for not using a closer comparable. In some cases, comparables with higher than normal adjustments may be justified; however, the appraiser must satisfactorily justify their use.

10.13. Arithmetic Errors

Always spot check the adjustment calculation and the plus (+) and minus (-) sign usage. An error in arithmetic math significantly affect value and may, in turn, obligate the underwriter to contact the broker or appraiser, assuming the error is not detected and corrected.

10.14. Comments

In the comments section the appraiser will provided the logical reasons for assigned market value. The final reconciliation does not involve an averaging technique. After underwriting the appraisal the underwriter should be able to reach sound conclusion regarding the adequacy of the property as a loan security. The photographs of the subject property should be carefully reviewed and consistent with the

comments section as well as other sections of the appraisal report. It is unacceptable for property to be valued as is when the photographs show construction in progress.
The appraiser is required to report all sales of the subject property and comparable properties made during the last 36 months preceding the date of the appraisal.

10.15. As Is Appraisal

The appraisal itself should be "As-is". In cases where the appraisal is "Subject to repairs" or "Completion per plans and Specs" a 442 – Satisfactory Completion Certificate is required along with photos.

10.16. Income Approach

This approach to value will not be typically used in appraisals of single family homes purchased for owner-occupancy, but will be analyzed for single-family investment transaction and for 2-4 family dwellings. It is expected that actual or forecasted rents will be documented n the appraisal of all 2-4 family properties and single-family investment units.

10.17. Cost Approach

The cost approach must clearly segregate value attributed to land, outbuildings, etc.

10.18. Unacceptable Appraisal Practices

The appraiser is responsible for the quality that justifies the value of the security property.

- Proving inaccurate data about the subject neighborhood, site, or improvements.
- Failing to comment on negative factors with respect to the neighborhood (including unfavorable conditions nearby) and the subject property.
- Using comparable properties in the valuation process when the appraiser has not inspected their exteriors.
- Selecting and using inappropriate comparable property sales or failing to use comparable properties that have location and physical characteristics similar to those of the subject property.
- Using data, particularly comparable sales data, which were provided by parties with a financial interest in the sale or in the financing of the subject property (without the appraiser's verification of the information from an impartial source).
- Making adjustments to comparable sales that do not reflect market reaction to differences between the subject property and comparable properties.
- Failing to make adjustments when they clearly are necessary.
- Reaching a valuation conclusion not supporter by available market data.

11. Title

11.1. Survey Endorsements

Survey endorsements are acceptable on all products for both purchase and refinance transactions. In instances where title or the purchase contract stipulates for a full survey a copy should be in the loan file.

11.2. Title Policy/Commitments

Title insurance is required on all loans unless otherwise noted on the Product Matrix. Title must insure our lien position without exception. Any items secured against the subject will be included in the CLTV calculation. A full title search will include the following:

- Date of search (not to be older than 60 days from time of closing/funding)
- Title coverage amount to be equal to proposed loans for this transaction. If not reflective on title, the final HUD-1 is required to reflect the Loan Amount coverage.
- Current ownership
- Vesting of title (copy of the grant or warranty deed should be in file if change to vesting)
- Property address
- Assessor's Parcel Number
- Legal Description

- Existing Liens
- Judgment and Bankruptcy Search(s)
- Tax Assessed value
- Tax information
- Easements

12. General Funding/Compliance

12.1. Power of Attorney

Other than deployed military personnel Aapex will not allow Power of Attorney's.

12.2. Private Mortgage Insurance

PMI is not required.

12.3. Escrow Impounds

Escrow impounds at this time are not permitted

13. Insurance

13.1. Hazard/Flood Insurance Requirements

Hazard insurance is required for all loans. A copy of the policy should be in file reflecting the borrower(s) name, property address, effective date of policy, expiration date, dwelling coverage amount and with mortgagee and deductibles. Minimum coverage requirement is the lesser of the following:

1. Total encumbrances
2. Replacement coverage (cost to rebuild new) or value of the dwelling and improvements as defined by the valuation method used. If the difference in the value of the land and the structure is known then the coverage can be established on the structure without the land. .
3. Maximum allowed based on state restrictions.

Additional requirements:

1. The policy must have a minimum of 90 days remaining on the current policy otherwise a full year's premium must be paid through closing.
2. The maximum deductible is $1000
3. Life of Loan Flood Certification no older than 60 days from date of funding
4. Evidence of flood insurance, if subject is located in a flood hazard zone (A or V). Flood insurance should meet the same requirements as hazard insurance.

5. Loss Payee should reflect:
Aapex Mortgage, its successors and/or assigns.
801 West Bloomingdale Ave
Brandon, FL 33511