2023 ACTION ONE FINANCIAL LENDING MANUAL

ACTION ONE

FINANCIAL CORPORATION

All loans must be submitted to one of the AUS engines.

The AUS findings must be included in all loan packages, and file must be documented to the respective AUS findings. However, all loans must still meet all Action One Financial Matrix guidelines (DTI, Credit score, CLTV) and adhere to any overlays as outlined in the following manual.

AUS	Finding	Requirements
Fannie Mae- DU	Approve Eligible	Eligible for purchase when the loan amount is within the selected product matrix.
Freddie Mac- LP	Accept / Eligible	Eligible for purchase when the loan amount is within the selected product matrix.
Fannie Mae- DU	Approve/ Ineligible	Eligible for purchase only when reason for Ineligible is due to loan amount exceeding product matrix loan limits; otherwise, not eligible for purchase
Freddie Mac- LP	Accept/ Ineligible	Eligible for purchase only when reason for Ineligible is due to loan amount exceeding product matrix loan limits or due to property type; otherwise, not eligible for purchase
Fannie Mae- DU	Findings other than those listed above	Not eligible for purchase
Freddie Mac- LP	Findings other than those listed above	Not eligible for purchase

ACTION ONE
FINANCIAL CORPORATION

Action One Lending Product Details

Portfolio and Jumbo ARMs

Action One's Personnel & MLO use only - Not for distribution. Details are subject to change without notice.

	Loan Amounts up to $726,200 or Fannie Mae and Freddie Mac Maximum Loan Limit	Jumbo - Loan Amounts up to $2,000,000
Product Description	Portfolio ARM 5/6 and 7/6 term	Jumbo ARM 5/6 and 7/6 term
Loan Amounts	Maximum loan amount: greater of $726,200 or Fannie Mae and Freddie Mac Maximum Loan Limit	Maximum loan amount: $2,000,000
Mortgage Insurance	Not required for loans above 80% LTV/CLTV	Not required for loans above 80% LTV/CLTV
Appraisal	Full Appraisal only. No Waiver Permitted.	Two full appraisals required for loan amounts $1,500,000 and above. No Waiver Permitted.
Declining Markets	Max LTV/ CLTV reduced 5% for when appraisal is marked as "Declining" property value	Max LTV/ CLTV reduced 5% for when appraisal is marked as "Declining" property value
Liquid Reserves	Follow the AUS conditions	Primary Home: Liquid Reserves of 6 months PITI be verified by most recent statement Second Home: Liquid Reserves of 12 months PITI be verified by most recent statement
Seller Contributions	Maximum seller contributions: 6%	Maximum seller contributions: 3%
Excess Land Acreage	Maximum acreage: 10 acres	
Condo Requirements	See Manual. Warrantable only	
Escrow Waivers	Escrow accounts required for all loan in all states, except CA. Escrow waivers allowed for loans with LTV <= 80%. See rate sheet for price adjuster.	
Assumptions	Not permitted	
Prepayment Penalty	Not permitted	
Loans to One Borrower	Maximum loans to one borrower is four. Maximum dollar amount of AOFC loans to one borrower is $2,000,000.	
Tax Service Fee	$89 for all states - currently only servicing California	
Principal Reductions	Allowed – No Maximum	
Max Cash Out	Allowed - No limit	

Action One Lending Product Details

Portfolio and Jumbo ARMs

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Portfolio ARM - Loan Amounts up to $726,200 or Fannie Mae and Freddie Mac Maximum Loan Limit					
Occupancy	**Transaction Type**	**Property Type**	**Maximum LTV/CLTV**	**Minimum Credit Score**	**Maximum DTI**
Primary Home	Purchase and Rate/Term Refinance	1-Unit, SFD, SFA, Condos	85%	720	43%
			80%	680	
		2-Units	80%	700	
	Cash-Out Refinance	1-Unit, SFD, SFA, Condos	80%	700	
Second Home	Purchase and Rate/Term Refinance	1-Unit, SFD, SFA, Condos	75%	700	
Investment	Ineligible				

Jumbo - Loan Amounts up to $2,000,000						
Occupancy	**Transaction Type**	**Property Type**	**Maximum LTV/CLTV**	**Maximum Loan Amount**	**Minimum Credit Score**	**Maximum DTI**
Primary Home	Purchase and Rate/Term Refinance	1-Unit, SFD, SFA, Condos	85%	$ 2,000,000	740	43%
			80%		700	
		2-Units	70%	$ 1,000,000		
	Cash-Out Refinance	1-Unit, SFD, SFA, Condos	80%	$ 1,000,000		
			75%	$ 1,500,000		
			70%	$ 2,000,000		
Second Home	Purchase and Rate/Term Refinance	1-Unit, SFD, SFA, Condos	75%	$ 1,500,000	740	
			70%		700	
Investment	Ineligible					

ELIGIBILITY

Action One Financial will only extend credit to individual applicants/borrowers. An applicant is defined as anyone who applies for funds in the form of a loan secured by real property, with the obligation of repaying the debt in full of interest. The borrower is the individual obligated to repay the loan secured by the mortgage premises. For the loan to be eligible, the applicant(s) must conform to certain eligibility requirements.

Eligible Borrowers

- Borrowers must be natural persons.
- All borrowers must be U.S. citizens, permanent resident aliens, or non-permanent resident aliens and must have a valid social security number in order to be eligible for a loan.

- The borrowers must have attained the legal age according to the local and state jurisdiction where the property is located. The borrower must be able to enter into a binding contract prior to the execution of the Note and Security Instrument. There is no maximum age limit for the borrower.

- The borrower must have the legal right to work in the U.S.

Ineligible Borrowers

- Corporations, estates, life estates, limited or general partnerships, not-for-profit organizations, schools, churches, etc.

- Foreign nationals

- Borrowers with diplomatic immunity

- Borrowers who do not meet the eligibility requirements set forth in this manual.

- No borrowers with a C08 EAD classification are allowed.

- Borrowers with DACA status are ineligible

Co-Borrower

A co-borrower is an individual who applies jointly with the applicant for shared or joint credit and who takes title to the property and is obligated on the Security Instrument and the Note. The co-borrower must execute the Note and the Security Instrument.

The income, assets, and liabilities of the co-borrower must be documented if used as a basis for loan qualification.

The liabilities of the co-borrower must be considered if the borrower resides in a community property state, if the subject property is located in a community property state, or if the borrower is relying on other property located in a community property state as a basis for repayment of the loan.

Same-Sex Marriages

It is the Bank's policy, to the extent not otherwise prohibited by federal or state law or other applicable governmental requirement or regulation, to recognize all lawful marriages as valid at the time of the marriage in the state or internationally recognized jurisdiction to be treated as married under the policies and procedures of the Bank, unless otherwise lawfully prohibited.

The Bank will use and interpret the terms “spouse”, “marriage”, “married”, “husband”, “wife” and any other similar terms related to family or marital status in the performance of all Bank services, to include lawful same-sex marriages, and lawfully married same-sex spouses.

In dower rights states, the spouse must sign the right to rescind and mortgage. Additionally, the mortgage and deed will need to be prepared as “married”.

For reference, see: Memorandum dated 6/25/2014-issued by the Consumer-Financial Protection Bureau entitled “Memorandum on Ensuring Equal Treatment for Same-Sex Married Couples”.

Non-Occupant Co-Borrower

The following applies when a non-occupant co-borrower is on the loan:

- The occupying borrower must demonstrate the ability and willingness to repay the mortgage.
- Although the income from the non-occupant co-borrower can be used to offset certain weaknesses of the occupying borrower (i.e., limited reserves, limited credit history, higher than normal qualifying ratios) the income from the non-occupant borrower cannot be used to offset significant or recent instances of major derogatory credit in the occupant borrower's credit history or lack of stable employment history.
- The Occupying borrower's DTI may not exceed 43% or loan is to be treated as a non-owner-occupied
- Some programs may not permit non-occupant co-borrowers. Refer to program description for eligibility.

Non-Borrowing Spouse/Non-Purchasing Spouse

Action One Financial will accept loan applications from married applicants or applicants in a domestic partnership whose spouse / partner is not a part of the loan transaction. A non-borrowing spouse may have rights in a property either as a co-owner of the property, state community property rights, or marital rights laws. The non-borrowing spouse is required to execute the security instrument and all applicable documents as applicable per statutory or decisional law of the state to create a valid lien, pass clear title, and waive rights to the property.

Living Trust/Inter Vivos Revocable Trust

Action One Financial will accept loans to fund in the name of an *Inter Vivos* Revocable trust, (also called a living trust, family trust, or revocable living trust), only on refinances. A copy of the recorded trust documents should be included with the loan submission. At least 1 of the individuals must be a Primary Beneficiary and an occupying borrower whose income and assets are used to qualify for the loan. Also, if no institutional trustee was appointed, this same individual must be a trustee.

The living trust agreement must contain specific language giving the trustee the power to revoke the trust. The trustor can change or cancel the trust at any time for any reason during the trustor's lifetime. The ability to revoke the trust allows the trustor to regain control of the property.

The mortgaged property held in the trust may be owner occupied single family (condo and PUD included), or a second home. Investment property is not permitted. At least one of the trustors whose income and assets are used to qualify must occupy the property.

The title commitment cannot contain any exceptions to coverage based on the mortgaged property being held in a trust.

A Power of Attorney is not acceptable if the loan is closing in the name of a trust. The trustee must execute the documents.

Power of Attorney

Action One Financial will allow a Specific Power of Attorney, or a General Power of Attorney appointed by the borrower. A Power of Attorney is not permitted if the loan is closing in the name of a trust. A Power of Attorney is not permitted on investment property transactions or cash-out refinances.

Action One Financial also requires a signed letter of explanation from the borrower as to why the borrower cannot sign the final documents and is appointing a Power of Attorney for the transaction.

The Power of Attorney must contain a durability clause stating the power of attorney is not affected by the subsequent disability or incapacity of the principal, or similar words showing the principal's intent that the authority give the attorney-in-fact may be exercised even if the Principal becomes disabled or incapacitated.

Action One Financial will require the original URLA, original initial disclosures, and purchase contract (if applicable) signed by the borrower.
Except as otherwise required by applicable law, or unless they are the borrower's relative, none of the following persons connected to the transaction shall sign the security instrument or Note as the attorney-in-fact or agent under a power of attorney:

- the lender;
- any affiliate of the lender;
- any employee of the lender or any other affiliate of the lender;
- the loan originator; any employee of the employer of the loan originator
- title insurance company providing the title insurance policy or any affiliate of such title insurance company (including but not limited to, the title agency closing the loan), or any employee of either such title insurance company or any such affiliate; or
- any real estate agent with a financial interest in the transaction or any person affiliated with such real estate agent

As used herein, the borrower's relative includes any person defined as a relative in this guide or a person who is a fiancé or domestic partner of the borrower.

For refinance transactions, an individual who would otherwise be prohibited from serving as an attorney–in-fact or agent under the restrictions above may execute the required loan documents on behalf of the borrower(s), provided all the following conditions are met:

- The attorney-in-fact or agent is not an employee of the lender.
- The power of attorney expressly states an intention to secure a loan not to exceed a stated amount from a named lender on a specific property.
- The power of attorney expressly authorizes the attorney in fact or agent to execute the required loan documents on behalf of a borrower only if the borrower has, to the satisfaction of the attorney-in-fact or agent in a recorded, interactive session conducted via the Internet, both
  - confirmed his or her identity; and
  - reaffirmed, after an opportunity to review the required loa documents, his or her agreement to the terms and conditions of the required loan documents evidencing such transaction and to the execution of such required loan by such attorney-in-fact.

Non- U.S. Citizen Borrowers

In order to ensure that the borrower is legally able to reside and work in the U.S., a valid Social Security Number (SSN) is required for all non-U.S. citizen borrowers whose income and/or assets are being used to qualify for a loan. AOFC follows Fannie Mae eligibility guidelines.

Product Qualification

- 5yr/ 6mo- the loan will be qualified on the max rate in the first 5 years
- 7yr/ 6mo- the loan will be qualified on the start rate.

PAYMENT SHOCK

Payment shock applies to the percentage of increase of the proposed housing payment in relation to the existing housing payment. Payment shock is considered when determining the risk and evaluating the borrower. Generally, Action One Financial prefers the payment shock to be less than 275%. However, borrowers with a higher payment shock are eligible based on the entire loan documentation, credit depth, employment history, reserves, etc. Not all programs limit the payment shock, but payment shock may apply in cases of layered risk.

For example: borrower rents for $1200 per month. Proposed PITI on purchase transaction is $3500. The payment shock is 192%. $1200 - $3500 divided by $1200 = 191.67%.

When calculating payment shock this can be based on the payment using the start rate for the 5yr/6mo ARM.

NON-ARM'S LENGTH TRANSACTIONS

A non-arm's length transaction exists anytime the applicant has a personal or business relationship with any other entity related to the loan. Examples of non-arm's length transactions are family sales or transfers, builder/developer transactions, renters buying from landlords, employees working for a family member/relative. Additional documentation may be required as determined by the underwriter.

PURCHASE TRANSACTIONS

A purchase transaction is a transaction in which the proceeds are used to finance the purchase of a property. The LTV is based on the lower of the sales price or current appraised value. A copy of the fully executed purchase contract and all attachments or addenda is required for all purchase transactions.

Properties in which the seller has been on title less than 6 months and the value has increased may require an additional appraisal under regulatory requirements outlined within the Truth-in-Lending Act (TILA) as implemented by Regulation Z.

Any purchase transaction that includes a ADU unit, rental income from the ADU can not be used for qualification

REFINANCE TRANSACTIONS.

A refinance transaction replaces an existing loan(s) with a new loan to current owners or places financing on a property currently owned by the borrower where no financing exists. Refinance transactions will be classified as either Rate/Term or Cash-Out. In general, a refinance must put the borrower in a better position. This can be evidenced by 1 or more of the following:

- Lower payment
- Lower interest rate
- Convert from ARM to fixed rate
- Pay off a balloon payment
- Convert from negative amortization loan to a fully amortizing loan
- Consolidate debt
- Pay off tax lien

At least one borrower on the note must be currently vested on deed.

Note: Depending upon the property's location, additional evidence of benefit to the borrower may be required due to state or local regulations.

Rate/Term Refinances

The LTV for any refinance with over 6 months seasoning is calculated on the current appraised value. Although there is no minimum title-seasoning or mortgage seasoning requirement for rate/term refinance transactions, Action One Financial will prudently evaluate refinance transactions in which the borrower recently acquired title to the property or recently refinanced the property.

The mortgage amount is limited to enough funds required to accomplish the following:

- Pay off the unpaid principal balance of the existing first lien mortgage, including any prepayment penalty.

- Pay off the unpaid principal balance of any existing subordinate mortgage that was used to purchase the subject property including any prepayment penalty. A copy of the Closing Disclosure executed by buyer and seller from the previous transaction may be required.

- Pay closing costs (including prepaid expenses).
- Disburse incidental cash to the borrower of no more than $2,000 or 2% of the loan amount, whichever is lower.
- Payoff the unpaid principal balance of a subordinate mortgage seasoned over 12 months.
- Principal curtailments are not permitted.
- Payoff of any delinquent taxes as reflected on title renders transaction a cash out transaction.

The proceeds from a rate and term transaction to buyout an ex-spouse is permitted if the borrower provides a copy of the recorded settlement agreement indicating the spouse is to be bought out.

Cash-Out Refinances

A refinance is considered cash-out if it exceeds any of the limitations indicated for rate/term refinances, or if it involves disbursement of loan proceeds to pay off or pay down unsecured or unseasoned debt.

The amount of cash disbursed in the form of paying off or paying down any unsecured or unseasoned debt plus cash to the borrower may not exceed the limits specified in the program details based on occupancy, CLTV, and documentation type.

The following requirements apply to cash-out refinance transactions:

- The transaction must be used to pay off existing mortgage loans by obtaining a new first mortgage secured by the same property, or be a new mortgage on a property that does not have a mortgage lien against it (the borrower owns the property free and clear at the time of refinance).
- If the existing first mortgage is being paid off through the transaction it must be at least 12 months old at the time of refinance, as measured by the note date of the existing loan to the note date of the new loan. This requirement does not apply
  - to any existing subordinate liens being paid off through the transaction, or
  - when buying out a co-owner pursuant to a legal agreement
- At least one borrower must have been on title for at least six months prior to disbursement date of the new loan.

Inherited Properties

Inherited properties are eligible for a rate/term refinance where there is evidence that the date of death is less than 12 months prior to the application date and the follow criteria are met:

- Proceeds of the mortgage loan must be used to buy-out the documented equity interest of the other beneficiaries to the estate. HUD-1 must reflect disbursement of funds to beneficiaries.

- Property has cleared probate and borrower is currently vested in title.

If the parties being bought out are not on title, but there is a court-ordered settlement agreement, the loan must be treated as a cash-out refinance, subject to the following criteria:

- Property must be owner-occupied.

Continuity of Obligation

A continuity of obligation is required for all refinance transactions. A continuity of obligation exists when 1 or more of the following occur:

- At least 1 borrower on the existing mortgage is a borrower obligated on the new mortgage.

- The borrower on title has been on title (but is not on the existing mortgage) and has been occupying the subject property for at least 12 months and has paid the mortgage for the previous 12 months (cancelled checks, front and back or 12 months bank statements) , or can demonstrate a relationship (spouse, domestic partner) with the current obligor.

- The existing loan being paid off and the title have been held in the name of a natural person or as an LLC or partnership. The borrower(s) must be a 100% owner(s) of the LLC or partnership prior to the transfer. Transfer of ownership from a corporation to an individual does not meet the continuity of obligation.

- The borrower recently inherited or was legally awarded the property (divorce/separation settlement).

MULTIPLE LOANS TO 1 BORROWER

Action One Financial limits its exposure to the same borrower to a maximum of 4 residential real estate loans, with an aggregate residential real estate loan amount of $2 Million. 1 of the 4 loans must be on the borrower's principal residence.

INELIGIBLE TRANSACTIONS

- Non-arm's length transactions that are less than full documentation and do not meet the requirements set forth in this manual.

- A borrower who currently owns a multi-unit property as his primary residence and is purchasing another owner-occupied multi-unit property located in the same city/town.

- Restructured loans are ineligible, unless the re-structure was over 12 months old, the borrower is 0 x 30 on mortgage subsequent to re-structure and a net tangible benefit can be demonstrated. A restructured loan is a mortgage loan in which the terms of the original transaction have changed resulting in the forgiveness of the mortgage or a restructure of the mortgage either through a modification or the origination of a new loan that results in any of the following:

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

- Application of a principal curtailment by or on behalf of the investor to simulate forgiveness.
- Conversion of any portion of the original mortgage debt to a soft subordinate mortgage.
- Conversion of any portion of the original mortgage debt from secured to unsecured.
- Payoff demands that are significantly lower than what is reporting on the credit report or VOM as the high balance of the loan will be carefully examined.

- Flip/bail out
- Loans with subordinate PACE obligations
- No Land Contracts
- Refinance transactions without a benefit to the borrower.
- Properties held in a Land Trust
- No unique properties (log cabins, max 10 acres)
- Non-Warrantable Condo
- Leasehold
- Income Producing
- Manufactured Homes
- Co-op

DOCUMENTATION ELIGIBILITY

Action One Financial requires standard documentation for all loans as defined in this manual.

Credit reports cannot be older than 120 days at the time of closing. Loans with a credit report greater than 120 days at closing will require a new credit report and will be subject to re-underwriting.

Mortgage/rental verification should be within 120 days at the time of closing. If the mortgage is not reported on the credit report, a VOM is acceptable provided it is from a known lending institution. VORs are acceptable from a property management company. Borrowers who rent from an individual are required to provide the most recent 12 months cancelled rent checks, or 12 months bank statements to evidence the rental payment history. In addition, private party mortgages and borrowers renting from an entity affiliated with the transaction require 12 months cancelled rent checks or 12 months bank statements

Income and asset documentation cannot be older than 120 days at the time of closing. At underwriter's discretion, more current income and/or asset documentation may be required.

A verbal verification of employment must be completed within 10 days of closing.

The title commitment cannot be older than 30 days at the time of docs.

The Closing Protection Letter and Survey cannot exceed 30 days at the time of docs.

Tax transcripts required. AOFC follows Fannie Mae guidelines.

CREDIT

A borrower's credit history is one of the strongest indicators of the borrower's willingness and ability to repay the mortgage. A borrower who maintains an excellent long credit history is more apt to continue managing his credit obligations in a timely manner.

Each borrower must have an acceptable credit profile. The borrower's credit history should demonstrate his willingness and ability to manage his financial obligations in a timely manner is a key element in determining the comprehensive risk for a mortgage.

The borrower's overall credit history, including but not limited to, credit score, repayment patterns, credit utilization, and level of experience in using credit has an effect on the eventual default risk of a mortgage. As such, the underwriter will assess the risk through a comprehensive review of the borrower's credit history.

Credit Report

The credit report must:

- Not be greater than 120 days old at the time of closing.
- Identify each applicant by name and verify the individual's social security number.
- Any social security number discrepancy must be disclosed by the Credit Reporting Agency.
- Be an original report with no corrections, erasures, white out, etc.
- Show the names of the national repositories used to compile the information.
- Be issued by a consumer reporting agency that obtains or verifies all information from sources other than the borrower.
- Provide the name, address and phone number of the reporting agency preparing the report.
- Provide a credit score from each repository accessed.
- Report all inquiries made within the previous 120 days.

- Search all repositories for each locality in which the borrower has resided during the previous 2-year period.

- Access at least 2 national repositories and identify those which were accessed for compiling report. Acceptable repositories are Equifax, Experian, and Trans Union.

- Verify all disclosed accounts including but not limited to the date the account was opened, the high credit limit, the current status, the current balance, required payment, the date of the last activity on the account, and a payment history which provides a historical status of each account with the number of times the account has been past due. If a creditor does not include a reference on an open account, a separate written verification may be required at underwriter's discretion. Open accounts must have been updated within 90 days of the credit report.

- Contain a search of at least 2 public record sources and disclose any tax liens, judgments, bankruptcies, and foreclosures that are reportable under the Fair Credit Reporting Act

Undisclosed Debt Monitoring

A “Gap” Credit report should be pulled on all first mortgage loans, at final underwrite, prior to the underwriter issuing a clear to close. Any additional debt revealed on the gap credit report will be included in the debt-to-income calculation. Gap credit reports expire 14 days after issuance.

If Undisclosed Debt Monitoring used in lieu of GAP Credit the Undisclosed Debt Monitoring report must be provided.

Incorrect Information

If the borrower states information reporting by the credit bureaus is inaccurate or incorrect (i.e. lates, public records, trades that do not belong to the borrower), the borrower will need to provide a letter of explanation, documentation supporting the letter, and documentation that the dispute is documented with the credit bureaus

Determining the Representative Score

Action One Financial requires a minimum of 2 valid/usable credit scores for each qualifying borrower. If all scores are valid/usable, the lesser of the 2 or middle of the 3 will be the representative score for each borrower. The representative score used for underwriting purposes is the lowest representative score of all qualifying borrowers.

Social Security Number

All borrowers must have a valid, legitimate social security number. Borrowers without a valid, legitimate social security number are ineligible for Action One Financial financing. In addition, borrowers who have a history of using invalid/illegitimate social security numbers are not eligible for Action One Financial financing

Inquiries

The credit reporting agency will list all inquiries within the last 90 days. Not all programs require inquires to be explained. However, the underwriter should review the inquiries and consider the frequency and types of inquiries reported when evaluating the borrower's credit. Multiple inquiries can be an indication of recently acquired debt, multiple liens, or other fraud schemes which would limit the borrower's ability to repay his obligations. These inquiries should be explained.

If the credit report indicates inquiries were made within the previous 90 days, the underwriter must determine if additional credit has been granted. Documentation from the borrower or a credit supplement evidencing no additional credit was obtained may be required. If additional credit was granted, the payment amount will be factored into the DTI ratio.

Changes in Credit Usages

Recent changes in the borrower's credit usage may be an indication of the borrower having difficulty maintaining his financial obligations. The underwriter should review all trades to determine if there has been a recent significant increase in the number of open accounts and/or the amount and number of outstanding balances.

Forbearance

Forbearance is an agreement to rearrange the terms of the original mortgage. For evaluation purposes, forbearance or a loan workout is considered a foreclosure. A letter of explanation is required from the borrower.

Tax Liens and Judgments

Anything listed on Title that would affect first lien position, must be paid and cleared.

PROPERTY VALUATION

Action One Financial will extend financing for the purpose of purchasing or refinancing 1-4 family residential properties. The property must constitute an acceptable form of collateral for the requested mortgage. The security for the mortgage may be a single family detached or attached, a townhouse or PUD, a condominium, or a 2-4-unit dwelling.

Action One Financial requires all appraisals to comply with Agency guidelines, comply with Home Valuation Code of Conduct issued by Federal Housing Finance Agency and must meet the minimum standards established by

FIRREA, USPAP and any implementing regulations in effect at the time the appraiser signed the appraiser's certification.

Although Action One Financial follows standard Agency appraisal guidelines, any differences noted in this section of the manual will supersede. Action One Financial will not accept any property inspection waivers.

Transferred appraisals are not allowed.

Appraiser Requirements

All appraisers must be licensed or certified in the state in which the subject property is located. A listing of certified appraises can be obtained through accessing the National Registry Database at https://www.asc.gov/National-Registry/NationalRegistry.aspx

A licensed or certified appraiser is acceptable to Action One Financial when he or she:

- Fully understands and complies with the Uniform Standards of Professional Appraisal Practice (USPAP), as promulgated by the Appraisal Standards Board of the Appraisal Foundation
- Is either an independent staff appraiser or independent fee appraiser as defined by Title XI of FIRREA (12 CFR Part 34)
- Is in good standing with the state licensing agency
- Has no present or prospective direct or indirect financial or personal interest in the subject property, and has no personal bias or interest in the parties involved in the subject transaction
- Was not assigned the appraisal subject to any required minimum or expected valuation of the subject property and is not compensated based upon the acceptability of the value derived in the appraisal
- Demonstrates sufficient expertise and education in the appraisal of 1-4 family residential properties similar to the subject property
- Is currently an active appraiser
- Unlicensed or uncertified appraisers that complete a portion or the entire appraisal report will require the licensed or certified appraiser for whom they are working to 1) sign the appraisal report; 2) inspect the subject property (interior and exterior); and 3) check the box on the appraisal report that indicates he/she has inspected the property

Appraisal Requirements

Underwriter must confirm that the appraisal:

- Identifies the creditor who ordered the appraisal, the property, and the interest being appraised

- The appraisal must be dated within 120 days of closing. No recertifications of value are allowed.

- Indicates whether the appraiser analyzed the contract price

- Addresses conditions in the property's neighborhood

- Addresses the condition of the property and any improvements to the property

- Property condition must be C-4 or better. Any C-4 condition must be for minor deferred maintenance only.

- No Escrow Holdbacks
- Properties noted to be in a declining market will be subject to a 5% reduction in the Max LTV/CLTV.

- Indicates which valuation approaches the appraiser used and includes a reconciliation if the appraiser used more than one valuation approach

- Provides an opinion of the property's market value and an effective date for the opinion

- Indicates that the appraiser performed a physical property visit of the interior of the property

- Includes a certification signed by the appraiser that the appraisal was prepared in accordance with the requirements of USPAP and Title XI of FIREEA and any implementing regulations

- <u>Loan Amount $1,500,000 million and above:</u>

  - Two full appraisals required for loan amounts $1,500,000 and above

  - In lieu of two full appraisals, AOFC will accept one full appraisal and a Clear Capital CDA review. When using a Clear Capital CDA review, variances between 0-10% on LTVS up to 75% with no recommendation for a field review are acceptable. The following findings may trigger a field review, additional appraisal, or Sr. Management approval:

  - Any variances greater than 10%

  - LTVs greater than 75% with a variance > = 5% - < = 10%

  - CDA recommends field review (even with 0 variance)

Standard appraisal requirements establish the value based on a thorough evaluation of both the interior and exterior of the subject property. This includes a quantitative sales comparison analysis and requires the assignment of a dollar value to reflect the market's reaction to any features of a comparable sale that differs from those of the subject property. The appraiser must perform a visual interior and exterior inspection of the subject property, inspect the neighborhood, perform at minimum a visual inspection of all comparable from the street, and research, verify, and analyze data from reliable public and/or private sources.

All appraisals must be written, must contain the appraiser's license number and original signature (or acceptable digital signature). All subject property photos must be clear. Comparable photos may be photos provided by a multiple listing service if they are clear and sufficiently detailed. The appraisal must be typed or computer-generated on an acceptable form without blanks, alterations, or omissions.

The subject property address and legal description must match the loan application, sales contract, settlement statement and title commitment. An appraisal without a complete and correct common address or full legal description is not acceptable.

The loan amount can determine the type of appraisal and review required. Refer to program details for specific appraisal requirements beyond what is listed below.

Appraisal Basis

Unacceptable appraisal practices

The following are examples of unacceptable appraisal practices. Evidence of any of the practices listed in this section will be a breach of Seller's warranty as to the professional quality of the appraisal.

- Consideration of the race, color, religion, sex, sexual orientation, gender identity, age, marital status, disability, familial status, exercise of any federally protected civil right, receipt of income derived from any public assistance program, birthplaces of residents at the property or in the neighborhood, national origin of the prospective owners or occupants of the subject property or of the present owners or occupants of the properties in the vicinity of the subject property. (See also Section 1301.2 for equal opportunity compliance requirements.
- Use of unsupported or subjective terms to assess or rate, such as, but not limited to, "high," "low," "good," "bad," "fair," "poor," "strong," "weak," "rapid," "slow," "fast" or "average" without providing a foundation for analysis and contextual information
- Incorporating terminology or veiled language that may be code words that could indicate underlying bias that include, but are not limited to, "pride of ownership," "crime-ridden area," "desirable neighborhood or location" or "undesirable neighborhood or location," "gentrified," "preferred community," "up and coming," predominantly Hispanic or Black neighborhood, substantial amount of Black or Hispanic residents at the property, diverse school system, amenities specifically geared to a race, ethnic or religious group or using terms such as Millennials, Generation X or Baby Boomers
- Inclusion of inaccurate or incomplete data about the subject property, the neighborhood or any comparable sale used in the appraisal analysis
- Failure to report and/or consider any apparent factor that has an adverse effect on the value and/or marketability of the subject property
- Consideration of the age or location of a dwelling or the age of the neighborhood or census tract where the dwelling is located in a manner that has a discriminatory effect
- Reliance in the appraisal analysis on comparable sales that were not personally inspected by the appraiser. A personal inspection requires at least a visual inspection of the exterior of the comparable property.
- Reliance in any appraisal analysis on inappropriate comparable sales, or the failure to use comparable sales that are more similar to or

nearer to the subject property without adequate explanation

- Use of comparable sales data provided by interested parties to the transaction without verification by a disinterested party
- The use of inordinate adjustments for differences between the subject property and the comparable sales that do not reflect the market's reaction to such differences, or the failure to make proper adjustments when they are clearly necessary

- Development of value and/or marketability conclusions that are not supported by available market data

INSURANCE REQUIREMENTS FOR CONDO

Master Policy

- Liability Coverage minimum $1 million per occurrence
- Hazard minimum 100% of the insurable replacement cost; deductible may not exceed 5% of the policy face amount per building
- Fidelity Bond minimum 3 months' worth of dues (not required for projects with less than 20 units)
- Insurance policy cannot include other condo projects, associations or self-insuring
- All units covered by the master policy must be listed directly on the policy

Flood Insurance

- Minimum required is the lesser of 100% of the insurable value or maximum coverage allowed per NFIP; coverage of each unit should be the lesser of $250,000 or the amount of its replacement cost (i.e., the replacement cost of all units combined or the number of units x $250,000)
- Deductible may not exceed $25,000 per building located in the flood zone

HO6/Walls In

- The HO-6 policy must have coverage that is greater than or equal to 25% of the unit's appraised value
- The deductible must be 5% or less

HAZARD INSURANCE

All loans require evidence of insurance. For loans with escrows, evidence of insurance is required prior to preparing documents. Applications for insurance are not acceptable documentation.

The insurance carrier must have an S & P rating of at least BBB+ or a Best rating of B++.
The insurance must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. The policy must

provide coverage equal to or broader than the coverage extended under an Insurance Services Office homeowner's form HO-3 for primary residences and DP-3 for second homes or investment properties.

The coverage should allow for claims to be settled on a replacement cost basis. Policies that limit or exclude coverage that are normally included under extended coverage endorsements (i.e., windstorm, hurricane, hail damages, etc.) are not acceptable unless the borrower is able to obtain a separate policy or endorsement from another commercial insurer that provides adequate coverage for the limited or excluded peril.

Policy Requirements

In addition to the name, address, phone number of the insurance carrier and the agent's name, the following is required on the policy:

- The insurance policy must list the borrower(s) as the insured. If the insurance policy is a master policy of a condominium project, the association must be listed as the insured with the borrower also listed on the policy.
- The property address must match that of the appraisal and title, including the unit number, if applicable.
- The premium amount and balance due must reflect on the policy.
- The deductible cannot exceed 5% of the dwelling coverage.
- The effective and expiration date. For purchase transactions, the expiration date should be 1 year from the effective date. On refinance transactions, the policy must have a minimum of 90 days from the date of funding remaining.

All policies renewed or purchased for the subject transaction require a copy of the paid receipt.

Coverage Amount

The amount of the coverage depends on the insurable value. The minimum amount of coverage must be equal to or greater than the replacement value, which is 100% of the insurable value as established by the insurance provider. The insurable value is not based on the loan amount.

For condominium projects, if the master policy does not provide coverage of the interior of the unit, the borrower is required to obtain a "walls in"

coverage, also known as HO-6 policy. The HO-6 policy must provide a minimum coverage of 25% of the unit's appraised value.

TITLE POLICY/COMMITMENTS

A full title policy is required on all loans not eligible for the Rapid Close product discussed above. The policy must be written by a title insurer who has an acceptable rating from at least 1 of the national independent rating agencies. If the title insurer does not have an acceptable rating, the insurer must be fully covered by reinsurance with a company that does have an acceptable rating.

The title commitment is valid for 30 days prior to docs. Commitments older than 30 days require an updated title commitment.

The policy must be written by a licensed title insurer who is able to conduct business in the area the property is located and is required to contain the following:

- The effective date of the title insurance may be no earlier than the later of the date of the final disbursement of loan proceeds or the date the mortgage was recorded.
- A copy of the survey or plat map must be provided with the title work unless the mortgage loan is covered by a master title insurance policy that insures against loss due to survey-related matters.
- The amount of coverage must be equal to a minimum of the original principal amount of the mortgage.
- Proposed Insured reflects Action One Financial.
- Title must be held in fee simple or leasehold.
- Schedule A stating the legal description.
- Schedule B stating the easements, restrictions, and exceptions to the coverage. Any encroachments or restriction violations must have insuring language.
- All applicable endorsements including an environmental protection lien endorsement, ALTA Endorsement 8.1 or ALTA 8.
- The appropriate survey endorsement. Survey exceptions are not permitted. Areas that do not require a survey will require an ALTA 9 Endorsement or CLTA Endorsement 116.
- Real Estate taxes must be current. Future taxes must reflect as not yet due and payable.
- A 24-month chain of title.
- Any subordinate liens must be included in the policy and state they are subordinate to Action One's first mortgage lien.
- 1992 ALTA loan title insurance policy with the creditor's rights exclusions.
- Any real estate taxes due within 60 days of loan closing must be paid on the settlement statement

An insured closing protection letter dated within 30 days of closing and a copy of the title company’s Errors and Omissions policy with at least $500,000 coverage are required.

QUALITY CONTROL

Action One Financial tales a proactive approach to qualify control to ensure the integrity of its loan files.

Action One Financial has a zero tolerance for loan fraud. Action One Financial is continually re-evaluating its procedures to identify fraud as well as implementing new procedures to prevent fraud as it changes and evolves within the industry.

Action One's quality control reviews are performed pre-funding as well as post-closing.

ACTION ONE LENDING MANUAL
Change Log: March 3, 2023

Effective 3/3/2023 The following WAS updated:

AUS chart was updated to remove reference to Co-op property type
Product Detail Chart updated:

- Added Principal Reductions = Allowed No Maximum
- Added Cash Out = Allowed No Limit
- Added Declining Markets = Max LTV/CLTV reduced 5% for when appraisal is marked as "Declining" property value

Manual:
Removed Underwriting Philosophy
Ineligible Borrowers:

- Added- No borrowers with a C 08 EAD classification allowed
- Added – Borrowers with DACA status ineligible

Living Trust/ Inter Vivos Revocable Trust:

- Removed statement- "Action One Financial will require both Attorney and Underwriter approval".

Added Product Qualification section:

- 5yr/ 6mo. ARM the loan will be qualified on the max rate in the first 5 years
- 7yr/ 6mo. ARM the loan will be qualified on the start rate

Payment Shock:

- Updated section to note that payment shock can't exceed 275%
- Added: When calculating payment shock this can be based on the payment using the start rate for the 5yr/6mo ARM.

Purchase Transactions:

- Added- Any purchase transaction that included a ADU unit, rental income from the ADU can not be used for qualification

Refinance Transactions:

- Removed: The value used for LTV/CLTV when the property has been owned for 12 months or less is the lessor of the purchase price or appraised value.

Cash-Out Refinances: (THE BELOW IS - Fannie Mae updated guideline)

- Added: The following requirements apply to cash-out refinance transactions:

- The transaction must be used to pay off existing mortgage loans by obtaining a new first mortgage secured by the same property or be a new mortgage on a property that does not have a mortgage lien against it (the borrower owns the property free and clear at the time of refinance).
- If the existing first mortgage is being paid off through the transaction it must be at least 12 months old at the time of refinance, as measured by the note date of the existing loan to the note date of the new loan. This requirement does not apply
  - To any existing subordinate liens being paid off through the transaction, or
  - When buying out a co-owner pursuant to a legal agreement
- At least one borrower must have been on title for at least six months prior to disbursement date of the new loan.

- Removed: No seasoning requirements for title, however, at least one borrower on the note must currently be vested on deed. Properties acquired more than 6 months from the application date will have the LTV/ CLTV based on the current appraised value. Properties with less than 1 year seasoning may require documentation supporting any increases in value.

Documentation Eligibility:

- Removed: Appraisals can't exceed 120 days at time of closing (as it is referenced in the appraisal/property section of the manual).

Property Valuation:

- Added: Transferred appraisals are not allowed

Appraisal Requirements:

- Added: No recertifications of value are allowed
- Added: No Escrow Holdbacks
- Added: under the condition of the property…….
  - Property condition must be C-4 or better. Any C-4 condition must be for minor deferred maintenance only.