Tax ID Max-EEP Guidelines

1. Program Overview

1.1. Earned Equity Program

The Earned Equity Program (EEP) is a purchase transaction whereby a governmental entity purchases a home selected by a Homebuyer, and then the Homebuyer either leases the property and enters into a long-term purchase agreement, or the Homebuyer enters into a seller financing agreement; in either case, this ultimately allows the Homebuyer to live in and control the home until such time as the Homebuyer can finance the home. These Earned Equity Program guidelines and overlays are specific to the Homebuyer's qualification and the Homebuyer's portion of the transaction, unless explicitly stated otherwise.

1.1.1. Program Notes and Disclaimers

The paired lease and long-term purchase agreement, or seller financing agreement, is not part of the FHA loan and is a separate relationship between the governmental entity and the Homebuyer.

Be in Mortgage adheres to all posted guidelines for FHA property eligibility as found in the FHA Housing Handbook, 4000.1 for the purchase of the home by the governmental entity. FHA's Office of General Counsel has reviewed the government entity and determined it to be eligible to purchase non-owner-occupied properties using maximum FHA financing.

1.1.2. Seller's Disclosure

All paired lease and long-term purchase agreements, or seller financing agreements, must be provided with a completed Seller's Disclosure. The Seller's Disclosure must be received by investor prior to closing and will be reviewed alongside the appraisal/property inspection.

1.1.3. Contract Types Recorded

Both Seller Financing Agreement Options Recorded	Agreement Options Recorded Alabama, Alaska, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia*, Washington, West Virginia, Wisconsin, Wyoming
Only Homeownership Agreement Recorded	BIM is not aware of any state, county, or city that the EEP program is offered in which will only record the Homeownership Agreement.
Only Long-term Purchase Agreement Recorded	Maryland
Starred States	Virginia: The city of Richmond will only record the Long-term Purchase Agreement.

1.2. FHA First Mortgage and Required Second Lien

The FHA mortgage that the governmental entity uses to purchase the home as part of the Earned Equity Program must be a 30-year fixed rate term with full amortization only. **The first mortgage must be purchased by the master servicer after closing**.

The mortgage type must be FHA 203 (b) 1–2 units, primary residence only.

1.2.1. FHA First Mortgage Loan Purpose

Purchase only

1.2.2. High Balance Loans

A high balance loan is any loan that exceeds the national conforming loan limit published by the CFPB. (This limit is higher in Alaska and Hawaii.)

High balance loans may be approved for an EEP transaction. However, correspondents must contact their account executive and receive pre-approval before registering a high balance loan. An LLPA adjustment will be required.

1.2.3. Required Second Lien

The Earned Equity Program requires all FHA loans to have a soft/forgivable second. The second must be of 1% assistance that carries no payment and bears no interest, with a 30-year term and forgivable in ten (10) years. The second must be in the Correspondent's company name and assigned at closing to the Tule River Homebuyer Earned Equity Agency (TRHEEA).

Correspondents fund the down payment assistance at closing and will be reimbursed upon purchase of the first mortgage under the terms of the Funding Obligation Letter issued at loan registration.

1.3. Property Eligibility

All eligible properties must qualify for an FHA 203 (b) loan, which the governmental entity will use to purchase the property as part of the transaction.

1.3.1. Eligible Properties

The following properties are allowed: SFR, PUD, townhome, attached, detached, modular, and manufactured.

Condos are allowed, but the complex must be FHA-approved. Condo spot approval allowed.

1–2 units allowed.

1.3.2. Ineligible Properties

The following properties are not allowed: Second homes, investment properties, 3–4 units, co-ops, and single-wide manufactured homes.

1.3.3. Property Rights

Fee Simple and Leasehold both allowed per HUD guidelines.

Leasehold properties must have a minimum of forty (40) years remaining on the lease at the time of closing. In addition, the lease document must be provided to investor.

1.4. Homebuyer Legal Status

US Citizens: Eligible. Must provide an Adverse Action Notice reflecting denial from Conventional and/or FHA financing attempts.

Non-US Citizens: Lawful Permanent Resident Aliens eligible with a green card or US Social Security Number (SSN).

Non-Permanent Resident Aliens: Eligible with proof of ability to repay and Individual Taxpayer Identification Number (ITIN). DACA eligible.

1.5. Homebuyer Credit History Requirements

Homebuyers should have at least one credit score from a major bureau to be eligible. (If the Homebuyer has more than one credit score, investor will use the middle of three scores or the lower of two scores.) **This score should be 580 or higher**; some exceptions may apply (see section 3.5.1). A soft pull credit report may be acceptable, provided the Homebuyer has sufficient documented housing history and a credit score (or "No Score") is on the soft pull.

Eligible credit reports should reflect at least one (1) trade line and provide at least twelve (12) months of credit history. If this is not possible, an alternative tradeline history with twelve (12) months documented may also be acceptable. Acceptable forms of alternative tradelines are as follows:

- Major Utility Bills: Must provide a 12-month history from the provider reflecting no late payments.
- Cellular Phone Bill: Must provide a 12-month history from the provider reflecting no late payments.
- Cable Bill: Must provide a 12-month history from the provider reflecting no late payments.
- Medical Bills: Must provide a corresponding payment arrangement letter from provider.
- Chapter 13 Bankruptcy Payments: Must provide a 12-month statement reflecting a payment arrangement schedule and concurrent payments paid, with no lates reflected.
- Child Support or Alimony Payments: Must be made on-time for twelve (12) months.
- Business Expenses (Self-employed): This is an option for self-employed borrowers if the expenses do not show in the borrower’s credit score. Must be paid on-time for twelve (12) months

Additional alternative tradelines may be considered on an exception basis.

Foreign credit may be considered with supporting documentation that the repository used is comparable with major US bureaus and is supported by a participating financial institution or employer.

1.5.1. Less Than 580 Credit Score or No Credit Score

Homebuyers with no credit score, or a qualifying credit score below 580, may require compensating factors to support weak credit profiles. Compensating factors may include:

- Twelve (12) months of alternative tradeline history (utility bills, cellular phone bills, or other documented payment histories);
- Child support or alimony payments made on-time for twelve (12) months; or

- Business expenses for self-employed borrowers (not found on credit) paid on-time for twelve (12) months

Additional reserves may also qualify.

Homebuyer with no credit score or a credit score below 580 may be considered on an exception basis.

1.5.2. Required Soft Credit Update/UDM/Credit Refresh

A soft credit update, debt monitoring service, or general credit refresh is required to ensure the Homebuyer opened no new debt prior to closing. Any bureau or vendor is acceptable. An updated report will be required within ten (10) days of closing.

1.5.3. Student Loans

The Homebuyer should be in good standing on all student loans (i.e. not delinquent or in collections).

For calculating DTI, follow FHA guidelines for calculating payments, considering deferment/forbearance requirements as applicable.

1.5.4. Bankruptcies

Chapter 7: Homebuyer eligible if the bankruptcy is discharged at the time of closing.

Chapter 13: Homebuyer eligible if the bankruptcy is discharged at the time of closing **or** filed within twelve (12) months of closing and the Homebuyer is able to provide evidence of successful payments made for twelve (12) months.

All bankruptcies must be recorded on the credit report.

1.5.5. Foreclosures, Deed-in-Lieu, Short Sales

Foreclosure, Deed-In-Lieu, or Short Sale less than one (1) year prior to closing not allowed. Must be recorded on the credit report.

1.5.6. Tax Liens

Homebuyer eligible if paid, settled, and/or discharged prior to closing.

The Homebuyer may also be eligible if a satisfactory payment arrangement is documented with a minimum of three (3) payments made in the plan. Payments in arrangement must be included in the DTI (as a monthly payment of 5% of the outstanding lien balance); if the payment is unable to be calculated, investor will allow the correspondent to amortize the payment of the obligation over a reasonable time frame (no greater than one hundred and eighty [180] months).

Open Tax Liability: If the Homebuyer has tax obligations from a previous year's returns, $10,000 or greater must be proven paid, or proven to be in a satisfactory installment agreement. Compensation factors such as reserves or business cash flow may be considered if payment in full or installment agreement cannot be met.

1.5.7. Property Tax Assessments

All transactions must be qualified for DTI purposes.

In general, follow FHA guidelines. In states whose laws result in large increases after the property has been sold, qualify and impound with the proposed tax assessment after property transfer (calculated with the current mill rate/county tax estimate), not with the current tax assessment from the previous transfer, as found from title.

1.6. Homebuyer DTI Requirements

The Homebuyer may have no higher than a 50% PTI (housing payment to income) / 60% DTI (total debt to income).

Exceptions may be granted with strong compensating factors including:

- Additional 24–48 month VOR reflecting no lates (a credit supplement may be required)
- Two (2) alternative tradelines for twelve (12) months reflecting no lates
- Two (2) months reserves, possibly more depending on the strength of file (must provide corresponding asset statements)

Additional REO properties must be approved by the investor Exception Team.

Foreclosure, Deed In Lieu, or Short Sale less than one (1) year from closing are not allowed.

1.6.1. Collection Accounts

Follow FHA guidelines for debt servicing for collection accounts. The following is a snapshot of those guidelines at the time of this document's publication:

- Collection accounts are not required to be paid off to qualify
- Collection accounts less than twenty/four(24) months old and over two thousand dollars($2,000) in value must be debt serviced.
  - Combine the dollar value of all collection accounts less than twenty-four(24)
  - Collection accounts are debt serviced at 5%

1.6.2. Charge-offs

Be In Mortgage requires a LOE for charge-offs, but not debt servicing.

1.6.3. Installment Loans

Follow FHA guidelines for debt servicing for installment loans. The following is a snapshot of those guidelines at the time of this document's publication:

- Installment loans may be omitted from debt servicing if both of the following conditions are met:
  - The installment loan has less than ten (10) months remaining; and
  - The installment loan's payment is less than 5%of the Homebuyer's income.

As an overlay, Be In Mortgage will consider an exception to omit an installment loan from debt servicing if the Homebuyer is able to document reserves funds equal to 150% of combined remaining payments. These funds must be documented from the borrower and not gift funds.

1.6.4. Authorized User Accounts

Follow FHA guidelines for debt servicing for authorized user accounts. The following is a snapshot of those guidelines at the time of this document's publication:

- If it can be verified that somebody other than the borrower has been making payments for at least twelve (12) months, the authorized user account doesn't count against debt servicing.

If the above requirement is not met, Be In Mortgage will include authorized user accounts in the Homebuyer's DTI ratio

1.6.5. Auto Leases

Follow FHA guidelines for debt servicing for auto leases. The following is a snapshot of those guidelines at the time of this document's publication:

- Auto leases are never omitted from debt servicing, regardless of time left on the lease.

1.7. Homebuyer Asset/Reserves Requirements

Homebuyers must document sufficient cash/liquidity to consummate the transaction, including the following:

☐1st payment due

☐Closing costs, including title fees, per title fee sheet

☐Sufficient down payment funds (minimum 3.5%)

☐Additional reserves may be required based on exceptions granted and strength of the overall transaction.

☐All required reserves must be verified prior to closing

Note: All funds for closing are finalized after receipt of the following:

- ☐ Final CD
- ☐ Settlement Statement from Title
- ☐ Closing Request Form
- ☐ Final Cost Disclosure (created by investor after receipt of the Final CD and Settlement Statement)

1.7.1. Funds Verified Prior to Closing

For a file with no exceptions, only the 3.5% minimum down payment amount is required to be verified prior to closing

If there is an exception present in the file, all cash to close and reserves must be verified in the Homebuyer's account prior to closing. In addition, the Homebuyer must provide an LOE sourcing the funds.

1.7.2. Asset Documentation

Assets relevant to the Homebuyer transaction require the following:

- ☐ Two (2) months of bank statements (most recent), covering two (2) statement periods
- ☐ Assets/reserves must be liquid at the time of closing

Business bank statements are acceptable as long as ownership is documented in the borrower's name and funds used from the business account do not deplete the company's ability to operate.

Investment accounts are acceptable if liquidation terms are documented and sufficient for closing.

If additional funds are needed to consummate the transaction, a LOE must be provided to certify the deposited funds did not come directly, or indirectly, from the seller, the real estate agent, the lender, or any other interested party to the transaction.

1.7.3. Gift Funds

Gift funds are acceptable for funds to close.

1.7.4. Verification and Wiring for Funds to Close

All funds to close the FHA transaction and the relationship between the Homebuyer and the governmental entity must be wired to TRHEEA prior to the date of closing. **TRHEEA will require a copy of the wire confirmation evidencing that the funds came from the Homebuyer's account**.

Earnest money funds paid by the Homebuyer are considered verified funds.

1.8. Homebuyer Housing History Requirements

A twelve-month housing history is required from the Homebuyer. The following provides more guidance on how that history should be documented.

1.8.1. Rental

Twelve (12) months of documented payment history required. The history must show good standing: no prior evictions, no late payments(greater than 30 days), and no balances remaining upon termination of lease agreement.

The following documentation is allowed:

- ☐ Fully completed VOR
- ☐ Private Landlord/Private VOR: Acceptable; additional supporting documentation required unless one of the following guidelines is met:
  - ☐ 40/50 DTI (or less); or
  - ☐ 125% payment shock (or less)
- ☐ Renting from Relative: Canceled checks or bank statements

Alternative methods of documenting housing history, including electronic payments (Venmo, Zelle, PayPal) are acceptable with a complete history documented.

Cash payments can be verified by a VOR (even with a private landlord) if one of the following is provided:

- ☐ Copies of cashiers checks for the most recent two (2) months
- ☐ Three (3) months bank statements showing money going to the landlord

If the Homebuyer is unable to properly document the above, an exception may be requested. Exception requests should be escalated to your Processor or Underwriter.

1.8.2. Mortgage

Twelve (12) months of 0x30 payment history required (documented by a credit report).

If an acceptable foreclosure (see section 1.5.5) is present in the file, a 0x30 housing history must have been reestablished since the foreclosure's date of last activity (DLA). In this instance, payment shock may not exceed 125%

1.8.3. Private Mortgage

May be allowed if the housing payment can be documented with bank statements, canceled checks, or a reasonable equivalent. Not allowed if a payment history is not available.

1.9. Homebuyer Income Requirements

All reviewed income should be calculated generally according to FHA and mortgage industry standards. A minimum of twelve (12) months of consistent employment history is required. Some exceptions may apply.

1.9.1. W2 Employees

The following documentation is required:

- ☐ Two (2) months paystubs (must be most recent)
- ☐ Prior year W2
- ☐ Documented Written Verification of Employment (WVOE) (to validate income)

W2 wages must be calculated according to general FHA guidelines for wage earners.

If the Homebuyer is ITIN and a SSN is provided on W2s or pay stubs, the most recent year of tax returns or tax transcripts may be required. In addition, the most recent three (3) months of bank statements are always required (to validate deposits).

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1.9.2. New Employment History

New employment history (less than twelve [12] months) may be acceptable with compensating factors documented.

If considered, the following are required:

(Salaried or Hourly) Commission income must be guaranteed for twelve (12) months or with previous history documented (otherwise not allowed)

Fully completed WVOE

Three (3) months of paystubs and three (3) months of bank statements (to validate deposits and cash flow)

1.9.3. 1099/Independent Contractor

The following documentation is required:

- ☐ Previous year's tax returns
- ☐ Three (3) months of bank statements (to validate income; most recent required)
- ☐ Paystubs, if applicable; if not paid via paystubs, then copies of checks, or a general P&L, required

1099/Independent Contractor income may be calculated using either of the following:

- ☐ The previous year's tax return previous year's tax return(traditional 1099/SE income analysis)
- ☐ An average of earnings deposits supported by three (3) months of bank statements

1.9.4. Self-Employed

Documentation is required. Please provide one of the following:

- ☐ Previous year's tax return, all schedules
  - ☐

Must be documented as filed with the IRS, or executed tax transcripts are required

- ☐ Profit and loss (P&L) statement; the following is required
  - ☐ Must be 12-month; per AH underwriter discretion, a year-to-date P&L statement may be acceptable based on the age of the business and history of earnings (minimum six [6] months)
  - ☐ Most recent three (3) months of bank statements required; note that bank statements are not used for income qualification, but to support the cash flow as reported by the P&L
  - ☐ Must be audited or prepared by a qualified CPA or preparer with an Enrolled Agent certification
- ☐ K1s and 1120s (depending on self-employment type)

Correspondents must provide a self-employed income analysis to document calculation.

At UW discretion, investor will not consider DTI reduction for self-employment for well-established businesses; in addition, investor may require well-documented cash flow and other comp factors.

Self-employment business types will be reviewed for effective income analysis. Some Homebuyers may have revenue streams or cash positions that require alternative methods of underwriting review. Investor will consider atypical income or asset profiles for all self-employed types, including investors and those with tax returns or P&L statements that may not reflect their true liquidity.

1.9.4.1 Profit and Loss Statement Format

A typical P&L statement has a format similar to IRS Form 1040, Schedule C. The statement will show revenue and expenses of the business, and the resulting profit or loss, over a specified time period. Below is an example of a profit and loss statement:

	Total revenue	$	1,000,000	100%
Less	Cost of Goods Sold	$	426,200	42.6%
	Gross Profit	$	**573,800**	57.4%
Less	**Expenses**			
	Accounting and legal fees	$	11,700	
	Advertising	$	15,000	
	Depreciation	$	38,000	
	Electricity	$	2,700	
	Insurance	$	15,200	
	Interest and bank charges	$	27,300	
	Postage	$	1,500	
	Printing and stationery	$	8,700	
	Professional memberships	$	1,800	
	Rent for premises	$	74,300	
	Repairs and maintenance	$	21,100	
	Training	$	6,900	
	Vehicle operating costs	$	20,000	
	Wages and salaries	$	223,500	
	Workers compensation	$	6,500	
	All other expenses	$	14,100	
Less	**Total Expenses**	**$**	488,300	**48.8%**
Equals	**Net Profit (BOS)**	**$**	**85,500**	**8.6%**

Using the above example, here is how to underwrite the statement:

- ☐ Total Revenue: $1,000,000
- ☐ Total Expenses: $488,300
- ☐ Gross Profit: $85,000
- ☐ Depreciation: +$38,000
- ☐ Adjusted Business Income: $123,000
  - Divide by twelve (12) for a reasonable figure to use for qualifying income

1.9.5. Bank Statements Only

Bank statements are required for Homebuyers with income that may only be documented with bank statements. Self-employed or wage earning Homebuyers are both acceptable. Follow the below requirements:

- ☐ Most recent three (3) bank statements
- ☐ Consistent deposits must be documented with sufficient income to meet DTI qualification

Tax returns or a business license may be required

For wage earners, an acceptable LOE to support the reason that bank statements are being used is required.

1.9.5.1 Underwriting Calculation Options (Fixed Expense Ratio)

Fixed Expense Ratio

- ☐ A 45% expense ratio required, regardless of business type
- ☐ Qualifying Income Calculation: Eligible deposits from the business bank statements are reduced by a 45% expense ratio, determining the qualifying income of the business
- ☐ Evidence MAY BE required to provide the number of employees and business type

Tiered Expense Ratio

- ☐ Eligible deposits from the bank statements are reduced by the expense ratio selected, determining the qualifying income of the business
- ☐ Expense ratio is tiered based on certain aspects of the borrower's business, including but not limited to the industry, number of employees, business type, business location, etc - see chart below:

Business Type: Service Business (Offers Services)

- ☐ Examples: Consulting, Accounting, Legal, Therapy, Counseling, Financial Planning, Insurance, IT

- ☐ Employees:
  - ☐ 0: 10% Expense Ratio
  - ☐ 2–5: 25% Expense Ratio
  - ☐ >5: 50% Expense Ratio

Business Type: Product Business (Sells Goods)

- ☐ Examples: Retail, Food Services, Restaurant, Manufacturing, Contracting, Construction
- ☐ Employees:
  - ☐ 0: 25% Expense Ratio
  - ☐ 1–5: 35% Expense Ratio
  - ☐ >5: 55% Expense Ratio

Additional Note

To be eligible for the tiered expense ratio option, buyers will be required to provide supporting documentation, including Articles of Incorporation, CPA letters, online/internet documentation, or other documents sufficient to provide service type or product/business type and number of employees

1.9.6. Other Income Source

Interest and dividend income may be considered. If considered, the following are required:

- ☐ Documentation and verification of the Homebuyer's ownership of the assets on which the interest or dividend income was earned
  - ☐ Must be reviewed and approved by investor
- ☐ Verification of the two-year history of the income must be verified using one of the following options:
  - ☐ (A) copies of the borrowers' signed, federal tax returns; or
  - ☐ (B) copies of account statements with earned income documented

For further guidance on the verification of a two-year history of income, consult the following:

- ☐ Develop an average of the income received for the most recent two (2) years.
- ☐ Subtract any assets used for down payment and closing costs from the Homebuyer's total assets before calculating expected future interest or dividends.

1.9.7. Lump Sum Asset Depletion

Lump sum asset depletion may be used for qualifying purposes. Take the total of all assets depleted and divide by one-hundred and twenty (120) months to calculate monthly qualifying income.

1.9.8. Liquidity

Homebuyers with substantial documented liquidity will be considered on a case-by-case basis. Substantial liquidity may be defined as evidence of 50% of the value of the subject property documented as liquid. (Exceptions may apply.)

1.9.9. Including Rental Income

If the home purchased through the EEP program has more than one unit and the Homebuyer intends to rent the vacant unit, the Homebuyer's qualifying income may include rental income from the unit, calculated at 75% of the market value of the proposed rent assessed by the FHA appraiser.

1.9.10. Additional Notes on P&L

P&Ls may be signed by the Homebuyer, not a CPA, if an investor's underwriter judges the P&L reasonable based on a review of bank statements.

1.10. Non-Occupant Homebuyers

Non-occupant Homebuyers may be allowed.

Non-occupant Homebuyer income cannot be used for **all** qualifying income. The primary occupant must document income toward qualifying PTI/DTI (per UW discretion).

The non-occupant Homebuyer(s) must sign the lease and long-term purchase agreement, or the seller financing agreement, and otherwise meet Homebuyer eligibility requirements (as outlined in this chapter).

1.11. Additional Properties Owned

Homebuyers with additional properties owned are subject to approval from the Investor's underwriter assigned to the file.

1.11.1. Primary Residence

One currently owned property (departing residence) allowed.

The following will be required:

- ☐ Strong supporting documentation justifying the need to move and obtain Tax ID Max-EEP financing
- ☐ An LOE (signed and dated by the Homebuyer)
- ☐ UW support and approval

For retained REO, the property's disposition at closing must be either of the following:

- ☐ Leased (with supporting lease agreement and evidence of deposit or rent received)
- ☐ Pending sale

Additional circumstances may be considered with strong supporting documentation.

1.11.2. Rental Properties

Homebuyers with additionally owned rental properties may qualify for EEP financing. To be considered, the following must be provided:

- ☐ Three (3) months reserves documented (to support REO)
- ☐ Properties documented with lease agreements and receipt of rental income

Homebuyer files with retained REO (rental properties) are subject to the following overlays:

- ☐ Minimum 580 credit score (no exceptions)
- ☐ Maximum PTI/DTI: 43%/50%
  - ☐ Exceptions may be considered, depending upon the strength of the Homebuyer

1.12. Property Appraisal

The following is required on all properties:

- ☐ A full FHA appraisal
- ☐ Appraisal marked "as-is" at the time of purchase **or** has a completion cert/1004D (if property was "subject to" repairs or completion prior to purchase)
- ☐ Appraiser certified that the subject property meets FHA minimum property requirements; no health, safety or adverse conditions can be present
- ☐ Subject property does not have commercial influence, and/or is not considered a "working farm," and/or and does not have commercial agricultural income potential

1.12.1. Property Details

The appraisal must state the property conditions as one of the following:

☐C1–C4

☐C5 (allowed with exception review)

C5 properties may be ineligible without significant repair or renovation; see Property Home Inspection section for more information

In addition, the roof must be in acceptable condition and good repair.

Properties built prior to 1978 will require a full property inspection, regardless of appraiser condition assigned, performed by a certified property inspector. All properties (if any) found to have aluminum electrical wiring (as indicated by the inspection or found through property insurance due diligence) may be ineligible for EEP financing based on ability to acquire acceptable hazard insurance.

1.12.2. Cost Approach to Value Section of the Appraisal

The RCE (or Cost Approach to Value section) of the Appraisal is required to be completed.

1.12.3. Automated Valuation Model

An AVM (Automated Valuation Model) will be pulled on all submitted appraisals to support the full appraised value. All AVM values must be within ten percent (10%) of the full appraised value for acceptance. Any appraised value that is greater than ten percent (10%) in difference from the AVM value is subject to a desk review, or counter-offer to the sales price.

1.13. Property Home Inspection

When required, inspections must be performed by a licensed home inspector prior to closing.

A home inspection is required prior to closing for all properties listed in C4–C5 condition, according to the FHA appraiser. In addition, properties built prior to 1978 will always require a full property inspection, performed by a certified property inspector.

Properties built prior to 1901 may require additional time to obtain the insurance binder.

Inspection requirements include:

- All health and safety items addressed and/or repaired, as required by the inspection

- All major systems inspected, including HVAC, plumbing, electrical, appliances, siding, major fixtures and flooring
- Roof inspection (with a useful life expectancy of at least ten [10] years)
- Smoke detectors and carbon monoxide systems tested and certified as operable per local building and health/safety codes
- Septic systems must have separate septic inspections performed, and they must be pumped and inspected along with the drain field
    - If evidence is provided that the septic system installed and/or serviced, and drained, within twelve (12) months of closing, this requirement is waived
    - This requirement is an Investor's overlay and still applies in states that do not have septic system requirements
- If electrical tests are not performed, it must be confirmed that power meters are functioning and are not bypassed

1.13.1. Home Warranty

A Certified Home Warranty must be obtained for all transactions that require a home inspection.

Required for all properties where full inspections are performed.

1.13.2. Home Inspection Repair Requirements

All inspections must be provided to the Homebuyer; in addition, the Homebuyer must sign an attestation acknowledging they have received and reviewed the inspection and have agreed that they are responsible to make all recommended repairs over the course of twelve (12) months after closing. All major health and safety items noted on the inspection report must be addressed prior to closing. These items may include:

All major health and safety items noted on the inspection report must be addressed prior to closing. These items may include:

- Severe Termite Infestation
- Severe Mold Infestation
- Major structural defects, including significant roof, plumbing, electrical and/or foundation repairs

All other repair items noted—i.e. not considered to be "major health/safety" concerns—are addressed with the homebuyer attestation and do not need to be addressed prior to closing or with a cure addendum. All FHA appraisal guidelines must be adhered to, in accordance with FHA's Minimum Property Requirements. All other moderate to minor items noted by the inspector may be included as repair requirements post-closing, as indicated by a Cure Addendum that the Homebuyer must sign prior to closing.

1.13.2.1 Cure Addendum

If required, the Cure Addendum may be e-signed. However, if there are any issues with e-signing the Cure Addendum, a wet signature and attestation of receipt will be required. All cures are required to be completed, with evidence of completion, submitted to Investor Servicing within six (6) months of closing. Any cures not completed within six (6) months will result in a Homebuyer fee assessment of $100; this fee will be charged the following month and each month afterward until evidence of the work is submitted. At twelve (12) months, if not completed, the fee will increase to $250 a month until all cures are resolved.

1.13.3. Wood-Destroying Organism Inspection Requirements

For existing construction, the Correspondent (Mortgagee) is responsible for confirming that the Property is free of wood-destroying insects and organisms. All purchase/sale contracts must provide all seller disclosures related to inspection requirements by state and addendums accordingly. Appraisers must report any apparent evidence of wood-destroying insect infestation, fungus growth, or dry rot. If the appraisal is made subject to an inspection by a qualified pest control specialist, the Correspondent must obtain the inspection and evidence of any required treatment to confirm the Property is free of wood-destroying insects and organisms.

If any evidence of Wood Destroying pests is present a full inspection is mandatory

If the property (existing construction only) is located in an area defined as having a "very heavy" or "moderate to heavy" probability of termite infestation (see list of states below), then a wood-destroying insect inspection report **must** be required by the Correspondent and provided to investor for review. Any/all evidence of infestation must be remedied prior to closing.

1.13.4. States Requiring Wood-Destroying Organism Inspection

The following thirty-five (35) states require an inspection to identify wood-destroying organisms:

- Alabama, Arkansas, Arizona
- California, Connecticut
- Delaware
- Florida
- Georgia
- Hawaii
- Iowa, Illinois, Indiana
- Kansas, Kentucky
- Louisiana
- Massachusetts, Maryland, Mississippi, Missouri
- North Carolina, Nebraska, New Jersey, New Mexico, Nevada
- Ohio, Oklahoma
- Pennsylvania
- Rhode Island
- South Carolina
- Tennessee, Texas
- Utah
- Virginia
- West Virginia, Washington, D.C.

1.13.5. Florida 4 - Point Inspections and Wind Mitigation Reports

For properties in Florida, a 4-point inspection must be performed; any noted unsatisfactory items must be fully repaired prior to closing. A wind mitigation report is also required.

1.14. Renter's Insurance

Coverage is optional. However, see Coverage Waiver Disclosure section for Homebuyers that do not choose to have renter's insurance.

If included, a renter's policy should include the following standard coverage:

- Personal property, liability, and additional living expenses
- The deductible should be standard for the policy, not to exceed $1,000
- Any additional coverages that are considered standard for the marketplace of the subject property

The policy must be proven paid prior to closing.

1.14.1. Coverage Waiver Disclosure

If the Homebuyer chooses to forego a renter's insurance policy, a "coverage waiver disclosure" is required to ensure the Homebuyer is aware that their personal property will not be covered if an adverse event occurs.

1.15. Fees

1.15.1. Fee Disclosure

Fee disclosure is required on both the government entity loan and the Homebuyer lease.

All fees on the government entity loan must be disclosed to Tule River Homebuyer Earned Equity Agency (TRHEEA) upon application in an initial disclosure, and at closing in a final disclosure. We require the use of an initial LE and/or initial CD with transaction fees reflected; waiting periods are not required**.** Upon receipt of the initial LE and/or CD, investor will provide an initial Homebuyer Cost Disclosure(CCD) for the Homebuyer to review and fully endorse. This CCD will not be disclosed until a Purchase Contract has been provided and the Assignment Addendum has been signed and dated by TRHEEA. A Final CCD will be provided based on the final balanced Closing Disclosure uploaded to the CS Portal. If changes made to the Final CD result in a difference in the fees previously disclosed, the lender must advise the investor Processing Team, and an updated Final CCD will be provided for Homebuyer review and endorsement.

At closing, **the Correspondent must use the CCD provided by investor.** The Correspondent may never disclose a CCD to the Homebuyer that is not provided by investor.

1.15.2. Fee Limits

Charges on the lease and long-term purchase agreement, or the seller financing agreement, that benefit the originator directly or indirectly (in excess of TRHEEA charges) must be less than or equal to 1% of the total FHA loan amount. The originator must advise the investor Processing Team of the charge increase, and this will be added as a Program

Participation Percentage line item on the Initial Homebuyer Cost Disclosure. If the Program Participation Percentage fee is disclosed after the Initial CCD has been endorsed by the

Homebuyer, an updated Initial CCD reflecting the additional Program Participation

Percentage fee must be signed and dated by the Homebuyer prior to receiving a Clear to Close or final approval on the transaction. Program Participation Percentage fees will not be added after the Clear to Close has been provided.

1.15.3. Fees to the Homebuyer

Total origination/Section A fees charged by the lender may not exceed 3% of the purchase price. Discount points that are not "bona fide" count against that 3% limit.

TRHEEA charges the following fees to the Homebuyer:

- $1,250 Program Underwriting Fee
- One (1) month complete payment to be collected at closing
- 1/12th of the annual Program Management Fee, to be collected at closing
- $100 Refundable Lease Security Deposit Fee
- $250 HOA Service Fee (if applicable)

1.16. Property Insurance Guidelines

Investor will request and select hazard insurance for each participating property prior to closing. For guidelines on insurance requirements, see section “Tule River Homebuyer Earned Equity Agency Property Insurance”

All hazard insurance applications must be submitted with the property appraisal.

1.17. Additional Guidelines

1.17.1. Contract/Lease Cancellation Prior to Closing

The contract/lease is subject to the Homebuyer (Tenant) qualifying for and executing the TRHEEA lease agreement on this property. If there is a change in the Participant circumstances and the Participant no longer qualifies for the lease or the Participant refuses to execute the final lease contract, this purchase agreement is void and the maximum liability for TRHEEA’s non-performance is forfeiture of the earnest money.

1.17.2. Fuse Boxes and Electrical Wiring

Due to difficulties with obtaining hazard insurance on properties with electrical systems using fuse boxes, homes will need to be updated from fuse boxes to breaker panels prior to closing.

Homes with knob and tube wiring must be updated to standard electrical wiring.

1.17.3. Disaster Certificates

In counties that have been deemed disaster areas by FEMA, investor will require a 1004D disaster certificate, or a 442, with exterior photos. The certificate must be dated after the incident period.

Follow FHA guidelines for appraisal and 1004D requirements when the subject property is in a county affected by a recent FEMA disaster declaration.

Note: Property insurance may be impacted and closings may be delayed in certain states or counties known to be affected by a recent FEMA disaster declaration.

In the case of ongoing wildfires, investor will make an exception to allow the certification to be issued before the end date. The certification must be issued after the start of the incident and the loan must be insured with FHA.

It is solely the Correspondent's responsibility to be aware of and act upon any mortgage loans that were, prior to the sale to investor, impacted by disasters. The Correspondent should contact the appropriate source (e.g., a state office, regional Federal Emergency Management Agency (FEMA) office, news agency, etc.) to determine whether properties located in its origination regions are included in a disaster area.

Disaster Policy applies to any of the following:

- FEMA-declared disaster areas eligible for Individual Assistance
- Areas identified by investor
- Properties that the Correspondent has reason to believe sustained damage in a disaster

Investor does not have the responsibility to provide notification to the seller of disaster areas. If, at any time after loan purchase, investor determines that the subject property was damaged and not in fully marketable condition at time of sale, the loan will be subject to repurchase.

1.17.4. PUDs, HOAs, and Occupancy Restrictions

All properties located in a PUD (Planned Unit Development) will require documentation from the HOA (including the ByLaws, CC&Rs, and any other relevant documentation) that addresses potential occupancy restrictions for contract-for-deed transactions that the HOA interprets as non-owner occupied. Subject property may be ineligible if occupancy is not approved by the HOA.

1.17.5. Financed Solar Panels

Solar panels are acceptable provided the solar panels are included in the price of the home and financed as part of the mortgage.

Leased solar panels are not currently acceptable. THREEA will not assume a solar panel lien and/or make any payments on financed solar panels associated with the property. If the lease can be placed in the tenant's name, and any lien placed in third position, then the transaction may be acceptable on a case-by-case basis.

1.17.6. Late Payments

Monthly housing payments (and additional monthly expenses) are due on the first (1st) day of the calendar month and late on the eighth (8th) day of the calendar month. This means that the Homebuyer has until the seventh (7th) of a given month to make a payment; if a payment is late, a penalty will be charged as set forth in the Customer Cost Disclosure.

1.17.7. Well & Septic/Agricultural Zoning

Follow FHA guidelines

1.17.8. Social Security Number Validations

If the credit report shows multiple SSNs or any other SSN issue (such as a single SSN, but it's different from the Homebuyer's social security card), the Homebuyer's SSN must be validated.

This only applies to Homebuyers with a social security card and that don't have an ITIN.

1.17.9. Property Condition Disclosure

Investor recommends the usage of a Property Condition Disclosure with all transactions, even in states that do not require a PCD. When present in a file, Tule River and Investor must always receive a copy of this document prior to closing. This document goes by different names in different states, but essentially is a record of the house's history and current condition, including as much detail as possible, recorded to the best of the seller's knowledge.

1.17.10. Concentration of FHA Financed Properties within Neighborhood Radius

Earned Equity Program transactions must comply with FHA guidelines related to property eligibility and the concentration of investment properties with FHA financing within a neighborhood radius. The below include some such requirements.

If the mortgage will be secured by an Investment Property (HUD considers EEP properties as investment transactions), including mortgages for governmental entities, the Homebuyer may not have a financial interest, regardless of the ownership or financing type, in more than seven (7) dwelling units within a two (2) block radius. If the Homebuyer will own six (6) or more units within a two (2) block radius, a map must be provided disclosing the locations of the units as evidence of compliance with FHA's seven (7) unit limitation. Investor EEP underwriters will be monitoring this at the time of initial underwriting. Any property submitted that appears to breach the seven (7) unit restriction may be denied for the program. A condition will be added that the FHA DE/UW will be responsible to address and provide evidence that the property does not exceed the restrictions.

1.18. Exceptions

For all exceptions, please reach out to UW Manager, National Production Manager and Capital Markets Director.

1.18.1. Credit Exceptions

Exceptions may be considered for the following:

- Credit score below 580
- Foreclosure
- Bankruptcy
- Thin credit history
- No trade lines or alternative credit documented

The following must be provided for a credit exception to be considered:

- ☐ Two (2) months of housing expense reserves (in addition to the amount normally required by the Earned Equity Program); **OR**
- ☐ 43% PTI / 50% DTI; **OR**
- ☐ A Combination of compensating factors as documented by the underwriter, which may include:
    - ☐ Extended housing history documentation (24–48 months)
    - ☐ Low payment shock (less than 50%)
    - ☐ Time on the job (documented >3 years)
    - ☐ Reasonable equivalent to the above (per UW analysis)

Credit exceptions may be allowed if the Homebuyer (post-closing) documents reserves for lease payments; amount required varies case by case, but assume 2 months or more.

1.18.2. Income and DTI Exceptions

Certain exceptions may apply to Homebuyers with excessive PTI/DTI or income documentation challenges:

- ☐ Income calculation and/or DTI exceptions will be considered with strong supporting documentation from the Underwriter, a Letter of Explanation, and an income calculation worksheet
- ☐ Two (2) months of housing payment reserves are always required for DTI exceptions exceeding 5% above the maximum allowed

2. Origination Through Closing

2.1. General Mortgage Loan Document Standards

Closing documents for the Government Entity Mortgage must be the most current Fannie Mae™, Freddie Mac, or FHA forms, as applicable. In all cases, Correspondents are responsible for using the most current mortgage loan documents and ensuring that all documents, including (without limitation) any document supplied by investor conform to all applicable state and federal laws and requirements.

2.1.1. General Closing Instructions

Lender Closing instructions must state the following:

The settlement agent is approved to use funds from a 3rd party depositor based on the Instructions for Signing and Closing the Lease with Long-Term Purchase Agreement provided by Tule River Homebuyer Earned Equity Agency and investor.

2.1.2. EEP 2nd Lien

Investor will secure a 2nd lien position at closing in the form of a forgivable 2nd mortgage, regardless of consumer down payment.

Terms: Forgivable in 10 years, amortized over 30 years, signed and executed at closing by an investor representative; no regular monthly payment required.

Amount: 1% of the lower of the purchase price or the appraised value. DPA funds are not required to be extended at closing.

2.2. Document Expiration Dates

Documents used in the origination and underwriting of a mortgage may not be more than one hundred and twenty (120) days old at the disbursement date (including new construction). Documents whose validity for underwriting purposes are not affected by the passage of time, such as divorce decrees or tax returns, may be more than one hundred and twenty (120) days old at the disbursement date.

For the purpose of counting days for periods provided in this document, a “day” is a calendar day (not a business day), and day one (1) is the day after the effective or issue date of the document, whichever is later.

2.3. QM Points and Fees Calculation

Generally, EEP requires that all transactions meet a points and fees cap that is similar to the QM Points and Fees calculation, also called the 3% max points and fees rule.

When a Correspondent Lender charges discount points, it is required that the discount points are determined to be bona fide discount points. Non–bona fide discount points must be included in the 3% points and fees calculation. Following these guidelines will help to prevent purchase delays.

2.4. Seller and Lender Credits and QM Points and Fees

Investor takes the position that seller credits may be used to pay for origination points or discount points. Keep in mind that converting seller credits to seller-paid fees must be done prior to or at closing, never after closing. Seller credits used to offset points and fees must be disclosed on the final CD; they cannot be corrected after closing.

Investor also allows lender credits. In either case, the total credits provided (seller and lender combined) may be no greater than 6% of the purchase price.

2.5. Closing in the Mortgagee's Name

A mortgage may close in the name of the mortgagee or the sponsoring mortgagee (the principal or authorized agent). TPOs that are not FHA-approved mortgagees may not close in their own names or perform any functions in FHA Connection (FHAC).

The mortgagee must use the forms or language, or both, prescribed by FHA in the legal documents used for closing the mortgage.

2.6. Projected Escrow (Taxes and Insurance)

The lender should establish the escrow account in accordance with the regulatory requirements in 24 CFR § 203.550 and RESPA.

2.6.1. Monthly Escrow Obligations

The lender should establish an escrow account that collects a monthly amount that will enable the servicer to pay all escrow obligations in accordance with 24 CFR § 203.23. The escrow account must be sufficient to meet the following obligations when they become due:

- Hazard insurance premiums
- Real estate taxes
- Mortgage Insurance Premiums (MIP)
- Special assessments
- Flood insurance premiums, if applicable
- Ground rents, if applicable
- Any item that would create liens on the property positioned ahead of the
- FHA-insured mortgage, other than condominium or Homeowners' Association (HOA) fees

2.6.2. Estimating Real Estate Taxes

The mortgagee must use accurate estimates of monthly tax escrows when calculating the total mortgage payment. This will affect the Homebuyer's lease payment.

Depending upon varying requirements, real estate taxes are generally calculated by taking the transfer price (or assessment) multiplied by the city/county mill rate, or the proposed assessment rate for the subject property transfer. In cases where the process differs, the lender is responsible for ensuring that the tax payment included in the PITI payment and impounds are calculated as accurately as possible.

When taxes are under-calculated, or the subject property's previous assessment value is used for current PITI and impounds, the Homebuyer will be assessed a tax roll increase that could jeopardize ability to repay or to meet cash reserves.

In dry states, investor does not allow for the participant to wire the title company directly, even on an exception basis.

2.6.3. Estimating New Construction Real Estate Taxes

In new construction transactions, property tax estimates for calculating the monthly payment must be based on the appraised land value plus improvements, along with the county tax/levy rate. In some cases, this can be done by using the manual calculation formula from the applicable taxing authorities. Alternatively, the title company may provide the estimate at the time the preliminary title is ordered. Documentation from the taxing authorities must be on file to support the estimated monthly tax used for payment calculation.

2.6.4. Mis-Rep and EPD Scenarios

Correspondents may be subject to mis-rep and EPD provisions of the Loan Purchase and Sale Agreement if:

- The Correspondent utilizes the previous year's property tax in areas where the property will be reassessed; *and*
- the new tax is more than 25% higher than the tax used to qualify the Homebuyer; *and*
- a sixty-day delinquency or a payment default results.

2.7. Closing Costs and Fees

The lender must ensure that all fees charged to the borrower comply with all applicable federal, state, and local laws and disclosure requirements. The lender is not permitted to use closing costs to help the borrower meet the Minimum Required Investment (MRI).

Fees on the LE and CD should ***never*** reflect as payable to the Master Servicer or investor, regardless of the section.

2.7.1. Collecting Customary and Reasonable Fees

The lender may charge the borrower reasonable and customary fees that do not exceed the actual cost of the service provided. The mortgagee must ensure that the aggregate charges do not violate FHA's 3% points and fees rule (the QM 3% Points and Fees test).

2.7.2. Disbursement Date

The "disbursement date" refers to the date the proceeds of the mortgage are made available to the borrower.

The disbursement date must occur before the expiration of the FHA-issued Firm Commitment, or DE approval, or credit documents.

2.8. Real Estate Taxes Due the Following Month After Loan Purchase

All escrow disbursements due the month following the loan purchase must be paid prior to loan purchase with evidence of payment documented (a copy of a check or a paid receipt) and an updated pay history. For example, if a loan is to be purchased in October and taxes are due in November, the November taxes must be paid prior to the Master Servicer purchasing the loan. An exception to this rule will be granted if a tax bill is not yet released.

Correspondents are expected to ensure that real estate tax calculations are reasonable and will not drastically increase following closing; for example, tax exemptions that won't apply to the new homeowner should not be included in the calculation.

2.8.1. Existing Construction

FHA recommends using the actual assessed property tax figure per the county's assessment/tax rolls; however, if property taxes will increase significantly from the current assessment after purchase, it is recommended that an estimated value be used that will result in the most likely payment for the borrower. The property tax value used for qualifying the borrower should be consistent throughout the file, including the URLA, AUS, CD, IEADS, and First Payment Letter.

2.8.2. New Construction

Investor recommends using a property tax estimate based on multiplying the purchase price (less any homeowner's exemptions) by the mill rates (the tax rates per the county website) that will be in effect in order to determine the payment; this will result in the least amount of payment variation once the property is assessed by the taxing authority. This property tax value (monthly tax payment) used for qualifying the borrower should be consistent throughout the file, including the URLA, AUS, CD, IEADS, and First Payment Letter.

We do understand that, due to local tax collection practices, property taxes may increase significantly during the borrower's first year of homeownership, resulting in the need to prorate taxes at closing based on a much lower figure than what will need to be included in the borrower's monthly payment. We also understand that, in calculating closing figures, the unassessed value may be used to lower the borrower's cash to close and eliminate the collection of excessive tax escrow. In these circumstances, based on most document preparation services' limitations, a First Payment Letter that does not match the URLA, CD, and initial IEADS may be used to reflect the most accurate payment to the borrower; however, the First Payment Letter must match the AUS qualification figures. In addition, a new IEADS reflecting the accurate collection and disbursements of tax payments should be included in the file along with an LOE from the lender.

2.9. Minimum Required Repairs & Escrow Holdbacks

Minimum required repairs are established by the FHA Roster Appraiser, the FHA DE Lender, or both. Investor will accept escrow holdbacks. Prior approval is required.

2.9.1. Completion Date

Improvements or repairs must be completed within six (6) months of the Note date.

Please note: it is the responsibility of the Correspondent lender to ensure that all repairs are completed. Notification from investor or the transferring investor is not guaranteed.

2.10. Tule River Homebuyer Earned Equity Agency Property Insurance

Investor will request and select hazard insurance for each participating property prior to closing. Each policy will consist of the following characteristics:

- All policies will conform to HUD guidelines
- Tule River Homebuyer Earned Equity Agency (TRHEEA) will be listed as the named insured
- The property address on the policy will match the property address listed on the appraisal
- No exclusions for the roof or any other portion of the home will exist

All hazard insurance applications must be submitted with the property appraisal.

2.10.1. Requests for Property Insurance

The following will be needed for investor to apply for insurance

- ❑ Occupant name and property address
- ❑ Investor's loan number
- ❑ Correct Mortgagee Clause
    - ❑ Lender name/Mortgagee Clause (Include ISAOA/ATIMA, as required)
        - ❑ Lender full legal address (as pertaining to the Mortgagee Clause)
    - ❑ Lender Contact Name, Phone & Email
- ❑ Effective Date (which should match the closing date)
- ❑ Mortgagee Loan Number
- ❑ Flood Certificate
- ❑ Appraisal
- ❑ Inspection report (as required)
- ❑ For Florida properties, a 4-point inspection and wind mitigation report is also required

Homes that contain knob and tube electrical wiring will be denied property insurance.

2.10.2. Dwelling Coverage of Hazard Insurance

Dwelling cost will be calculated based on the lower of the following two values:

- ❑ 100% of the replacement cost value of the improvements
    - ❑ This is indicated in the Cost Approach section of the subject property appraisal; in cases in which the cost approach is not available, a third-party RCE will be procured
- ❑ The unpaid principal balance (UPB) of the loan, provided it equals no less than 80% of the replacement cost value of the improvements

2.10.3. Rental Loss Endorsement

Rental loss endorsement will be automatically applied for properties in the following situations:

- ❑ High balance loans, which (in most states) equate to loans over the amount of $766,550
- ❑ Properties in which the loan amount is greater than 10% of the replacement cost estimate

2.10.4. Flood Insurance

Properties located in a special flood hazard area are subject to further review and will need to include the following (in addition to hazard insurance):

- ❑ Flood insurance from a provider participating in the NFIP (National Flood Insurance Program) will need to be procured.
- ❑ Homebuyers will need to sign a Flood Zone and Flood Insurance Disclosure acknowledging additional costs of flood insurance and risk of flooding.

2.10.5. High Risk Areas

Certain counties are considered, for various reasons, higher risk by insurance companies. These counties are designated Tier 1 through Tier 4 counties by the insurance industry. As a result of Tier 1 through Tier 4 counties carrying more risk, it can be expected these counties will have higher premiums.

Properties that are located within two miles of saltwater or a flood zone are subject to alternative or additional guidance.

2.10.6. Florida Properties

Properties in Florida will need a 4-point inspection and wind mitigation report to be submitted along with the application and the appraisal.

2.10.7. Other considerations

Depending on insurance carrier and property location, some aspects of the property condition are carefully scrutinized by insurance underwriters, resulting in insurance inspections, insurance underwriting actions, required repairs, or insurance denial. In these cases additional or alternate guidance will occur.

2.10.8. Homebuyer-Procured Insurance Exception

Homebuyers may procure HO3 insurance policies themselves if using the homeownership financing agreement (NOT the long-term purchase agreement governed by a lease).

The following are required for a homebuyer-procured HO3 insurance policies:

- Policy must be written with minimum coverage equivalent to HO3 policy
- Insurance carrier must be rated appropriately according to the below credit rating agencies; exceptions are granted for state-backed insurance programs
- Homebuyer must be listed as primary or named insured
- Tule River Homebuyer Earned Equity Agency must be listed on the policy as additional insured
- Mortgagee must be listed accordingly
- RCE must be provided by the insurance company; for Florida properties, an insurance agent letter can be provided in lieu of RCE attesting the dwelling coverage amount on the policy meets or exceeds the replacement cost estimate
- Deductible must be no greater than
  - 5% for wind/hail
  - $5,000 for all other perils
- Policy must contain coverage for personal liability
- A Property Insurance Disclosure must be completed and executed by homebuyer Insurance Carrier Ratings:
- AM Best Company: “B” or better Financial Strength Rating
- Demotech, Inc: “A” or better Financial Stability Rating
- Kroll Bond Rating Agency: “BBB” or better Insurance Financial Strength Rating (IFSR)
- S&P Global: “BBB” or better Insurer Financial Strength Rating
- Note: An insurer is only required to meet the rating category requirement for one of the rating agencies, even if they are rated by multiple rating agencies.

2.11. Title Policies and Insurance Commitments

All title insurance policies must ensure that the title is generally acceptable and that the mortgage constitutes a lien of the required priority on a fee simple or leasehold estate in the property. The title policy should list any and all other liens as subordinate to the first lien.

The title policy must be written on an ALTA (American Land Title Association) form. In states where ALTA forms of coverage are not used, the state-standard or short form that provides the same coverage as the ALTA form may be used, provided that the coverage does not impair lien protection to all applicable liens for purchase.

The title policy should be dated as effective (no earlier, or no later) at the date of closing. Lien protection must begin at the time of consummation and extend through the life of the loan.

Note: Title insurance is not a requirement for investor second liens, although it may be applied at the lender's discretion. All title insurance requirements are in line with FHA guidelines for lien insurance protection for first liens used in connection with the purchase transaction.

2.11.1. Adding Persons to Title and Sales Contracts

Investor allows persons to be added to the contract and title that are not on the loan, such as non-purchasing spouses, per Agency and state guidelines.

2.11.2. Homebuyer Funds to Title

The Homebuyer is responsible for providing all down payment funds, including closing costs and 1st month's payment due in certified funds, to title.

2.12. Interest Credit

EEP does not allow the use of an interest credit on EEP transactions.