



# Selling Guide

Non-QM Plus Program

P&L Plus / VOE Plus / Alt Plus / DSCR Plus

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# 1 General Policy

## 1.1 Loan Purchase Eligibility Policy

MK Lending Corp.'s ("MK Lending") Seller Non-QM Plus Program Underwriting Guidelines establish the criteria under which a residential mortgage loan will be eligible for purchase by MK Lending. MK Lending does not require originators or clients to make any loan simply because it is eligible for purchase by MK Lending, nor does MK Lending prohibit originators or clients from originating a loan that is ineligible for purchase by MK Lending.

MK Lending will evaluate many aspects of the loan to make a purchase determination, but primarily relies on evaluation of the Borrower's ability and willingness to repay the loan to predict loan performance. Additional characteristics of the loan will also be examined including credit history, asset position and the property being used for collateral.

MK Lending has a zero-tolerance policy as it relates to fraud. All clients should follow their own established fraud and identity procedures on every loan to prevent and detect fraud (including, but not limited to, Social Security number verification, verbal verifications of employment, processing of 4506C, etc.). Loans containing fraudulent documentation or information will immediately be rejected for purchase and forwarded for further review. If there is any determination of client involvement, the client will be made inactive, and the appropriate agencies notified. It is the originator's responsibility to ensure that all loans it originates comply with all federal, state, and local laws applicable to the origination and sale of mortgage loans.

## 1.2 Fair Lending Statement

MK Lending Corp. operates in accordance with the provisions of the Fair Housing Act and Equal Credit Opportunity Act. The Fair Housing Act makes it unlawful to discriminate in housing-related activities against any person because of race, color, religion, national origin, sex, handicap, or familial status. The Equal Credit Opportunity Act prohibits discrimination with respect to any aspect of a credit transaction on the basis of sex, race, color, religion, national origin, marital status, age (provided the borrower has the capacity to enter into a binding contract), receipt of public assistance, or because the borrower has in good faith exercised any right under the Consumer Credit Protection Act. MK Lending Corp. fully supports the letter and spirit of both of these laws and will not condone discrimination in any mortgage transaction.

## 1.3 Responsible Lending Statement

The primary focus of this lending program is the borrower's ability to repay the mortgage obligation. Mortgage Loans acquired or funded by MK Lending Corp. should be affordable to the borrower in his or her pursuit of homeownership.

Under the general Ability to Repay (ATR) standard, at or before consummation of the related Mortgage Loan, lenders must make reasonable, good-faith determination that the consumer has a reasonable ability to repay the Mortgage Loan. Lenders must verify information using reasonably reliable third-party records that provide evidence of income or assets.

If a Mortgage Loan is subject to the ATR rules under the Federal Truth In Lending Act ("TILA"), lenders must consider eight underwriting factors to be compliant:

1. Current or reasonably expected income or assets (other than the value of the property that secures the loan) that the consumer will rely on to repay the loan.
2. Current employment status (if you rely on employment income when assessing the consumer's ability to repay).
3. Monthly mortgage payment for this loan. You calculate this using the introductory or fully indexed rate whichever is higher, and monthly, fully amortizing payments that are substantially equal.
4. Monthly payment on any simultaneous loan secured by the same property.
5. Monthly payments for property taxes and insurance that you require the consumer to buy, and certain other costs related to the property such as homeowner's association fees or ground rent.
6. Debts, alimony, and child support obligations.
7. Monthly debt-to-income ratio or residual income, that you calculated using the total of all of the mortgage and non-mortgage obligations listed above, as a ratio of gross monthly income.
8. Credit history.

MK Lending Corp. will not purchase a loan subject to the ATR requirement under TILA unless it meets the requirements of the rule. Certain loans may be exempt from TILA or otherwise exempt from the ATR rule. In those cases, though MK Lending Corp. may choose to purchase a loan that does not adhere to the formal requirements of the ATR rule, MK Lending Corp. will only purchase loans that the applicant appears able to afford based on application of prudent underwriting standards.

## 2 MK Lending Program Overview | Summary and Features

Please see [MK Lending Program Matrices](#) for the full eligibility guidelines. The information below is a representative summary of the different MK Lending programs.

### 2.1 Alt Plus, P&L Plus & WVOE Plus with No Housing Event, No Mortgage Late, & Standard Reserve

- For Borrowers with a **clean derogatory housing event history** ( $\geq 48$  months clean) and mortgage history (0x30x12)
- Borrowers can qualify with 1099, Asset Depletion, Asset Qualifier, 12/24 Months Personal and Business Bank Statements, Written Verification of Employment (“WVOE”) and 12 Month 3rd Party P&L
- Max Loan Size of \$3mm
- Max LTV:
  - 90% for 1099/Bank Statement
  - 85% for Asset Depletion/Asset Qualifier
  - 80% for WVOE/P&L
- Minimum FICO of 660 (Asset Depletion/Asset Qualifier 700)
- Asset Depletion/Asset Qualifier: Cash-out not allowed. Primary only.
- DTI up to 50%: No additional restriction
- DTI up to 55%:
  - Requires a FICO score of 700 or greater
  - Maximum LTV 80%
  - Primary Residence only, NO FTHB
  - Requires 1.5x Residual Income as defined in Section 12.3.
- Interest Only Eligible (Min 700 FICO, Max 85% LTV, FTHB Not Permitted)
- 6 Months Minimum reserves
- Cash Out can be used as reserves

### 2.2 Alt Plus, P&L Plus & WVOE Plus with Housing Event, 1x30x12 Mortgage Late, or Reduced Reserve

- For Borrowers with the following housing event history ( $\geq 36$  months clean) and mortgage history (1x30x12)
- Borrowers can qualify with 1099, Asset Depletion, Asset Qualifier, 12/24 Months Personal and Business Bank Statements, Written Verification of Employment (“WVOE”) and 12 Month 3rd Party P&L
- Max Loan Size of \$3mm
- Max LTV:
  - 85% for 1099/Bank Statement/Asset Depletion/Asset Qualifier
  - 75% for WVOE/P&L
- Minimum FICO of 660 (Asset Depletion/Asset Qualifier 700)
- Asset Depletion/Asset Qualifier: Cash-out NOT allowed. Primary only.
- DTI up to 50%
- Interest Only Eligible (Min 700 FICO, Max 80% LTV, FTHB Not Permitted)
- 3 Months Minimum reserves

- Cash Out can be used as reserves

## 2.3 DSCR Plus

- MK Lending DSCR Plus Program is for professional investors with the following derogatory housing event history ( $\geq 36$  months clean) and mortgage history (0x30x12) seeking a business purpose, non-owner-occupied loan
  - First Time Investors are allowed provided that the DSCR is  $>1.0$ , the Credit score is  $>700$  and there are no exceptions on the file
  - First Time Investors May Not be a FTHB
- Borrowers will qualify with property income (Debt Service Coverage Ratio)
- Debt Service Coverage Ratio = Gross Rent/PITIA (Amortizing loan) or Gross Rent/ITIA (Interest Only)
- DSCR eligible at .75x
- No Ratio DSCR is acceptable with restrictions
- No personal income to qualify
- Personal recourse required for all guarantor that meet the requirements referenced in section 4.7. No additional Borrowers are allowed to join an entity on Title or on the subject loan
- Minimum Loan Size of \$125,000
- Max Loan Size of \$2mm
- Max LTV of 80%
- Minimum FICO of 660
- Interest Only acceptable with restrictions (refer to matrix)
- 3 months minimum reserves
- No requirement for additional reserves for other financed properties, Subject Property reserves only
- Cash Out can be used as reserves
- Housing history verification is required on subject property and borrower primary residence, regardless of whether or not the borrower is on the Note or Vested on Title. Any additional housing history included in the loan file that reflects delinquencies will be subject to review and must adhere to loan program matrix

## 2.4 DSCR Plus - Foreign National

- MK Lending Foreign National Plus Program is for Borrowers with a clean derogatory housing event history ( $\geq 48$  months clean) and mortgage history (0x30x12)
- A Foreign National is a non-U.S. Citizen who is not authorized to live or work in the U.S. or holds a work Visa that is indicative of a more temporary residency than those required to meet Non-Permanent Resident Alien requirements
- Borrowers can qualify property level income (DSCR)
  - DSCR qualification will be for Non-Owner-Occupied properties only
- Max Loan Size of \$1mm
- Max LTV of 65%
- Minimum FICO of 680+ or NA
- Borrowers do not need a representative FICO score
- 1.00x Minimum DSCR (Non-Owner-Occupied properties only)
- Interest Only Not Permitted
- Minimum 12 months reserves
- Cash Out can be used as reserves



## 3 Product Types & Eligibility

Product	Qualifying Rate <sup>(1)</sup>	Term	IO Term	Amort. Term	Index	Caps
5/6 ARM	Higher of Fully Indexed or Note Rate	360		360	30 Day SOFR	2/1/5
5/6 ARM IO	Higher of Fully Indexed or Note Rate	360	120	240	30 Day SOFR	2/1/5
5/6 ARM IO	Higher of Fully Indexed or Note Rate	480	120	360	30 Day SOFR	2/1/5
7/6 ARM	Higher of Fully Indexed or Note Rate	360		360	30 Day SOFR	5/1/5
7/6 ARM IO	Higher of Fully Indexed or Note Rate	360	120	240	30 Day SOFR	5/1/5
7/6 ARM IO	Higher of Fully Indexed or Note Rate	480	120	360	30 Day SOFR	5/1/5
30 Yr. Fix	Note Rate	360		360		
30 Yr. Fix IO	Note Rate	360	120	240		
40 Year Fix IO	Note Rate	480	120	360		

1. \*DSCR loans will be qualified at the original Note Rate, regardless of ARM or Fixed.

2. Qualifying payment for I/O loans must include a principal component based on the original balance and remaining amortizing term at the end of the I/O period (i.e., 240 months or 360 months).

### 3.1 Adjustable-Rate Criteria

- Please refer to the respective MK Lending Program Matrix at <https://mklending.com/matrix> for adjustable-rate criteria (caps, floors, margins, etc.)
- ARM floor is equal to the loan's initial margin
- 30 Day Average SOFR Index as published by the New York Federal Reserve
- Reset Period on ARMs will occur every six months after the initial reset

### 3.2 MK Lending Derogatory Housing History

- Please refer to the respective MK Lending Program Matrix at <https://mklending.com/matrix> for Derogatory Housing Events seasoning requirements and Housing History requirements
- Derogatory Housing Events:
  - MK Lending defines Housing Events as Foreclosures, Short Sale, Deed in Lieu, Loan Modification (due to default), Notice of Default, or 120+ Days Delinquent
  - Bankruptcies are considered Housing Events, inclusive of Chapter 7, 11, and 13
  - Defaulted first and second mortgages on same property are considered one (1) event
  - Events include all occupancy types (Primary, Second Home, and Investment Properties)
  - Seasoning lookback is from the date of discharge/dismissal or property resolution (completion date), as of the note date
    - Modification look back commences at inception (when loan was permanently modified)
- Housing History
  - Twelve (12) month mortgage/housing history includes all occupancy types: Primary, Second Home and Investment Properties

### 3.3 Geography

- States where MK Lending has license are eligible for purchase by MK Lending.

### 3.4 Minimum Loan Amount

- Alt Plus, PL Plus, WVOE Plus, DSCR Foreign National: \$150k
- DSCR Plus: \$125k

### 3.5 Debt to Income (“DTI”)

- Max DTI permitted: 50%
- DTI up to 55% allowable with the following requirements:
  - Minimum 700 FICO
  - Max 80% LTV/CLTV
  - 0x30x12 housing history
  - Primary residence only
  - No FTHB
  - 1.5x minimum residual income as defined in Section 12.3
- Please refer to the respective MK Lending Program Matrix at <https://mklending.com/matrix> for specific DTI limits
- Loans with a DTI greater than 43% or HPML must follow MK Lending’s residual income requirements as noted in Section 12.3.
- For I/O qualifying rate / payment, calculate using the higher of the fully indexed rate or initial rate based on the original balance and remaining amortizing term at the end of the I/O period (i.e., 240 months or 360 months). See section 3.1 for adjustable-rate loans. For fixed rate loans, apply the fixed rate. Qualifying payment for I/O must include a principal component.

#### 3.5.1 Qualifying Payment

- For fixed rate loans, apply the fixed rate based on original balance fully amortized over selected term
- Qualifying payments for I/O loan must include a principal component.
  - For ARM I/O qualifying rate / payment, calculate using the higher of the fully indexed rate or Note rate based on the original balance and remaining amortizing term at the end of the I/O period (i.e., 240 months or 360 months)
    - See Section 3.1 for adjustable-rate loans
- For fixed rate, I/O loans, qualifying payment, calculate qualifying payment based on the fixed rate, the original balance and remaining amortizing term at the end of the I/O period (i.e., 240 months or 360 months)

### 3.6 Cash-Out Limits

- Please refer to the respective MK Lending Program Matrix at <https://mklending.com/matrix> for Cash-Out limits

### 3.7 Prepayment Penalties

- Permitted on Non-Owner Occupied (Investment Properties) only. Prepayment penalties on primary residences and second home transactions are prohibited
- Where permitted by applicable laws and regulations. Total points, fees and APR may not exceed current state and federal high-cost thresholds
- MK Lending does not fund or purchase loans defined as high-cost mortgages under Federal or state law, regardless of the basis for the loan’s treatment as such

### 3.8 Reserves

- Please refer to the respective MK Lending Program Matrix at <https://mklending.com/matrix> for Reserve requirements
- Reserves are calculated off actual P&I payment plus taxes, insurance and HOA fees (PITIA)

- Reserves for an Interest Only (“IO”) loan will be based on the initial Interest Only payment (ITIA)
- Additional reserves are required for Borrower(s) with additional financed properties other than the Subject property (Applicable to Alt Plus, P&L Plus, and WVOE Plus). DSCR Plus does not require reserves for additional financed properties, Subject property only)
  - Borrower(s) will be required to meet the subject property reserve requirement plus two (2) months of reserves for each additional financed property
    - Example) Borrower with five (5) financed properties with a total monthly PITIA/ITIA of \$5,000 must have an additional \$10,000 in reserves in addition to the Subject property requirements
- Reserves must be documented per 10.1 Documentation
- Cash Out proceeds may be used in reserve calculation

## 4 Borrower Eligibility

### 4.1 Eligible Borrowers

- U.S. Citizens
- Permanent Resident Aliens
- Non-Permanent Resident Aliens
- Foreign Nationals (DSCR Plus Only)
- Inter Vivos Revocable Trust (Must meet FNMA requirements)
- Limited Partnerships, General Partnerships, Corporations, Limited Liability Companies (“LLCs”)

### 4.2 Permanent Resident Alien

- A permanent resident alien is a non-U.S. citizen authorized to live and work in the U.S. on a permanent basis. Permanent resident aliens are eligible for financing
- Acceptable evidence of lawful permanent residency must be documented and meet one of the following criteria:
  - I-151 – Permanent Resident Card (Green Card) that does not have an expiration date
  - I-551 – Permanent Resident Card (Green Card) issued for 10 years that has not expired
  - I-551 – Conditional Permanent Resident Card (Green Card) issued for two (2) years that has an expiration date, if it is accompanied by a copy of USCIS form I-751 requesting removal of the conditions
  - Un-expired Foreign Passport with an un-expired stamp reading as follows: “Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until mm-dd-yy. Employment Authorized.”

### 4.3 Non-Permanent Resident Aliens

#### 4.3.1 Non-Permanent Resident Aliens must meet the following requirements:

- The following Visa classifications are allowed as Non-Permanent Resident Aliens:
 

– E-1, E-2, E-3	– H-1B	– O-1
– EB-5	– L-1	– R-1
– G-1 through G-5	– NATO	– TN (NAFTA)R-1
- Copies of the Borrower’s passport and unexpired visa must be obtained. Acceptable alternative documentation to verify visa classification is an I-797 form (Notice of Action) with valid extension dates and an I-94 form (Arrival/Departure Record). Borrowers unable to provide evidence of lawful residency status in the U.S. are not eligible for financing.
- A valid employment authorization document (EAD) must be obtained if the visa is not sponsored by the Borrower’s current employer. If the visa will expire within six (6) months of loan application, it is acceptable to obtain a letter from the employer documenting the Borrower’s continued employment and continued visa renewal sponsorship (employer on the loan application must be the same as on the unexpired visa)

- If a non-U.S. citizen is borrowing with a U.S. citizen, it does not eliminate visa or other residency requirements.
- Individuals in possession of spouse or family member visas are to qualify as co-Borrowers only. A valid EAD must be provided to use income for qualification
- Borrowers who are residents of countries which participate in the Department of Homeland Security's Visa Waiver Program (VWP) will not be required to provide a valid visa. Participating countries can be verified through the U.S. Department of State website:

<https://www.dhs.gov/visa-waiver-program-requirements>

#### 4.3.2 Non-Permanent Resident Alien Program Restrictions

- **Maximum 80% LTV/CLTV, please check Matrix for more detail**
- **Purchase and Rate / Term Refinances only**

### 4.4 Foreign National (DSCR Plus Only)

- A Foreign National is a non-U.S. Citizen who is not authorized to live or work in the U.S. or holds a work Visa that is indicative of a more temporary residency than those required to meet Non-Permanent Resident Alien requirements. Foreign Nationals are ineligible for primary residence financing.

#### 4.4.1 Verification of Residency Status

- The following Visa types are allowed as Foreign Nationals:

– B-1 and B-2	– I	– O-2
– H-2 and H-3	– J-1 and J-2	– P-1 and P-2

- Copies of the Borrower's passport and unexpired visa must be obtained. Acceptable alternative documentation to verify visa classification is an I-797 form (Notice of Action) with valid extension dates and an I-95 form (Arrival/Departure Record). Borrowers unable to provide evidence of lawful residency status in the U.S. are not eligible for financing
- If the visa will expire within six (6) months of the loan application, it is acceptable to obtain a letter from the employer documenting the Borrower's continued employment and continued visa renewal sponsorship (employer on the loan application must be the same as on the unexpired visa)
- If a non-U.S. citizen is borrowing with a U.S. citizen, it does not eliminate any of the Foreign National requirements set forth in these guides. Individuals in possession of spouse or family member visas are to qualify as Co-Borrowers only.
- Borrowers who are residents of countries which participate in the State Department's Visa Waiver Program (VWP) will not be required to provide a valid visa. Participating countries can be verified through the U.S. Department of State website at <https://travel.state.gov/content/travel/en/us-visas/tourism-visit/visa-waiver-program.html>
- MK Lending does not buy loans originated to citizens of Venezuela or any other country or jurisdiction identified as not being allowed to transact business in the U.S.

#### 4.4.2 Credit Requirements

- A U.S. credit report should be obtained for each Foreign National Borrower with a valid Social Security Number (SSN). For Borrowers without a valid Social Security Number, an Individual Taxpayer Identification Number (ITIN) is also allowed. An ITIN is acceptable if the Borrower has the ITIN for the purpose of reporting taxes from passive income sources and is not employed in the US. Foreign Nationals who do not have a valid SSN or ITIN may still proceed under the Foreign National program with all other requirements still applicable

##### 4.4.2.1 Qualifying U.S. Credit

- Qualifying U.S. Credit refers to non-U.S. citizen Borrowers who meet standard tradeline requirements located in section 7.4.1

##### 4.4.2.2 Qualifying Foreign Credit

- Qualifying Foreign Credit Borrowers must have an established credit history subject to the following requirements:

- Three open accounts with a two (2) year history reflecting no late payments
- Mortgage and/or rental payment must be verified with a twelve (12) month history not to exceed 0x30 in the past twelve (12) months
- A two (2) year housing history can be used as a tradeline
- U.S. credit accounts can be combined with letters of reference from verifiable financial institutions in a foreign country to establish three (3) open accounts. If letters are obtained, they must:
  - State the type and length of relationship, how the account(s) are held, and the status of the account(s)
  - Contain contact information for the person(s) signing the letter(s)
  - Any translation required must be signed and dated by a certified translator
  -

## 4.5 First time Home Buyers

- First Time Home Buyers (“FTHB”) are individuals that have not owned a home or had a residential mortgage in the last 3 years. The following are required for FTHB:
  - Maximum Payment Shock of 250%
  - Rent Free FTHB are unable to meet Payment Shock requirements, they are permitted with no credit exceptions. Housing History requirements pertaining to rent free borrowers identified in Section 7.2 must be followed
  - Interest Only Program Not permitted
  - Please note: A borrower is not classified as a First-Time Homebuyer (FTHB) if they are vested on any property title within the past (3) years. Borrowers vested on title to their primary residence but not on the note will still require a 12-month housing history

## 4.6 Non-Occupant Co-Borrower

- Non-Occupant Co-Borrowers are not permitted.

## 4.7 Limited Partnership (LP), General Partnership (GP), Corporations (Corp) and Limited Liability Companies (LLC)

### 4.7.1 Entity Vesting Requirement

- Properties vested in any of these manners are limited to Investment and Business Purpose and the following requirements must be met:
  - Entities must be formed for the purpose of Ownership and Management of Real estate
  - Max of four (4) entity owners allowed
    - All eligible Guarantors must be disclosed and credit qualify – eligibility listed in Section below
  - All Borrower(s) must execute the Occupancy Certification
  - For DSCR Borrower(s) obtaining a Rate/Term or Cash Out Refinance loan, the Borrower must execute the Business Purpose & Occupancy Affidavit

### 4.7.2 Borrower Guarantor Eligibility Requirements

- Guarantor(s) must:
  - Be a managing member or majority owner
  - Hold at least 25% ownership (as confirmed by the operating agreement or equivalent)
  - Guarantor is subject to the same underwriting requirements as an individual Borrower
- Personal Guaranty (PG) is required when Note is not signed individually (see below for signing example)
  - Guarantor (s) must sign all closing documents and disclosures.
  - All Borrower(s) will be required to provide Personal Recourse
  - Consent of Spouse Form will be required in Community Property States when loan is signed with a personal Guaranty and Spouse is not included in the loan
    - Form must be executed at loan closing and dated the same date as the Note

### 4.7.3 Required Entity Documentation

- The following entity documents are required:
  - Articles of Incorporation
  - Operating Agreement
  - Tax Identification Number
  - Certificate of Good Standing
    - Must be dated within 30 days of closing

#### 4.7.4 Layered Entity Structures

- Layered entities are permitted up to two (2) layers as long as the ownership structure is consistent from top to bottom, with no discrepancies
  - ⊖ For example, if the Borrower is ABC LLC, which is 100% owned by XYZ LLC, and John and Mar Smith are the sole owners of XYZ LLC, then John and Mary Smith must be the borrowers/guarantors. The ownership chain must be cleared and aligned
- Entities layered with a Trust are NOT eligible.
- Guideline requirements above must be met for each entity

#### 4.7.5 Entity Signature requirements

- The note must be signed by either the guarantor in their individual capacity and/or as member(s) and/or managing member of the entity. In cases where there will not be any individual capacity signatures, each applicable guarantor/manager must sign a Personal Guaranty in their individual capacity.
- The Mortgage/Deed of Trust/security instrument should be signed by the applicable guarantor(s) of the entity in their capacity as member(s) and/or managing member of the entity.

Signing Example:

Note:
<i>John Smith (Individual signature if person is not signing a Personal Guaranty)</i>
<i>John Smith, as member of ABC Properties, LLC</i>
Mortgage/Deed of Trust:
<i>John Smith, as member of ABC Properties, LLC</i>

### 4.8 Ineligible Borrowers

- MK Lending will not fund or purchase loans that have been made to any of the following Borrower types:
  - Non-Occupant Borrowers
  - Irrevocable or Blind Trusts
  - Land Trusts
  - Layered Entity with a Trust
  - Non-Profit Organizations
  - Borrowers with diplomatic immunity
  - Asylum applicants
  - Self-employed Borrower deriving their income from any Cannabis related business
  - Borrowers(s) with residence of any country not permitted to conduct business with U.S. Companies as determined by U.S. government authority

## 5. Occupancy Eligibility

### 5.1 Primary Residence

- A primary residence is a property that the Borrower(s) currently resides in (refinance) or intends to occupy (within sixty (60) days) as his or her principal residence
- 2–4 Unit properties are eligible as primary residences, provided they are common for the area and exhibit no unique characteristics that can influence marketability. If there are questions or concerns on a specific property, please contact [guideline@mklending.com](mailto:guideline@mklending.com) for review and consideration
- Characteristics that may indicate that a property is used as a Borrower's primary residence include:
  - Occupancy by the Borrower for the major portion of the year
  - Location is relatively convenient to the Borrower's principal place of employment
  - Property is the address of record for such activities as federal income tax reporting, voter registration, occupational licensing, and similar matters
  - Borrower may not own an additional single-family residence of equal or greater value than subject property
  - Property possesses physical characteristics that accommodate the Borrower's family

### 5.2 Second Home

- A property is considered a second home when it meets all the following requirements:
  - Must be located a reasonable distance away from the Borrower(s) principal residence
  - Must be occupied by the Borrower(s) for some portion of the year
  - Is restricted to a one-unit dwelling
  - Must be suitable for year-round occupancy
  - The Borrower(s) must have exclusive control over the property
  - Must not be subject to any timeshare arrangements, rental pools or other agreements which require the Borrower to rent the subject property or otherwise give control of the subject property to a management firm
  - Gift funds not permitted on Second Home with LTV/CLTV > 80%

### 5.3 Non-Owner Occupied

- Occupancy designation for an income producing property where the Borrower does not occupy the Subject property
- All borrower(s) must execute the Occupancy Certification
- For DSCR Borrower(s) obtaining a Rate/Term or Cash Out Refinance loan, the individual signing the Note and/or providing personal guaranty must execute the Business Purpose & Occupancy Affidavit
- For non-owner-occupied loans with a Guarantor, the Borrower(s) providing the guarantee must execute the Personal Guaranty Agreement.

#### 5.3.1 Ineligible for Non-Owner Occupied

- Rural properties not permitted
- Gift funds not permitted on Non Owner Occupied loan with LTV/CLTV > 80%

## 6 Transaction Eligibility

### 6.1 Eligible Transactions

#### 6.1.1 Purchase

- A purchase transaction is one which allows a buyer to acquire a property from a seller where the proceeds of

the transaction are used to finance the acquisition of the Subject property

- The lesser of the purchase price or appraised value of the Subject property is used to calculate the LTV
- Sellers must have owned the property more than 12 months, otherwise the transaction is subject to review as a Flip Transaction. Scenarios that meet the definition of a Flip Transaction as defined in Section 6.1.6 below must meet the requirements provided in that section
  - Bank owned REO and Corporate Relocations are eligible and not considered a flip transaction

### 6.1.2 Rate/Term Refinance

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- A Rate / Term Refinance transaction is when the new loan amount is limited to the payoff of a present mortgage for the purpose of changing the interest rate and/or term of mortgage only with no additional cash or advancing of new money on the loan unless it is below the limited cash-out amount.
- The seasoned non-first lien mortgage is (1) a purchase money mortgage or (2) a closed end mortgage or (3) HELOC mortgage not having any draws greater than \$5,000 in the past twelve (12) months
  - Withdrawal activity must be documented with a transaction history from the HELOC
- Limited cash to the Borrower must not exceed the lesser of \$5,000 or 2% of the principal amount of the new mortgage whichever is less to be considered a Rate / Term refinance
- The LTV / CLTV will be based off of the appraised value. Loan must be used to pay off existing lien on the Subject mortgage and cash to the Borrower must not exceed the lesser of \$5,000 or 2% of the principal amount of the new mortgage whichever is less
- Properties that have been listed for sale by the Borrower within the past six (6) months from the Note date may not be currently listed at the time of Loan Application and will require a Borrower LOE and listing Cancellation
  - Multiple Listings in the past twelve (12) months will not be eligible for Purchase by MK Lending
- The rate / term refinance of a construction loan is eligible with the following conditions:
  - If the lot was acquired twelve (12) or more months before applying for the subject loan, the LTV / CLTV is based on the current appraised value of the property
  - If the lot was acquired less than twelve (12) months before applying for the construction financing, the LTV / CLTV is based on the lesser of (i) the current appraised value of the property and (ii) the total acquisition costs
- Refinance of a previous Cash-Out seasoned < 1 year will be considered Cash-Out refinance
- Refinancing of a Land Contract is considered a purchase and LTV / CLTV should be calculated using purchase price

### 6.1.3 Cash-Out Refinance

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- A Cash-Out Refinance transaction allows the Borrower to pay off the existing mortgage by obtaining new financing secured by the same property or allows the property owner to obtain a mortgage on a property that is currently owned free and clear. The Borrower can receive funds at closing if they do not exceed the program requirements
- To be eligible for a Cash-Out Refinance the Borrower must have owned the property for a minimum of six (6) months prior to the application date. For DSCR Cash-Out seasoning and guidance, please refer to Section 9.8
- Properties that have been listed for sale by the Borrower within the past six (6) months from the Note date may not be currently listed at the time of Loan Application and will require a Borrower LOE and listing Cancellation
  - Multiple Listings in the past twelve (12) months will not be eligible for Purchase by MK Lending
- If the property is owned less than twelve (12) months but greater than six (6) months at the time of Note date, the LTV / CLTV will be based on the lesser of the original purchase price plus documented improvements such as invoices with confirmation from appraiser, or current appraised value. The prior settlement statement will be required for proof of purchase price
- Refinance of a previous Cash-Out seasoned < 1 year will be considered Cash-Out refinance
- Refinancing of a Land Contract is considered a purchase and LTV / CLTV should be calculated using purchase price
- A Texas 50(a)(6) loan is a non-purchase money mortgage (potentially including a refinance of a prior home equity



loan) in which the borrower takes equity out of a homestead property in Texas. In order to be valid, these home equity loans must comply with all requirements listed in Section Article XVI, Section 50(a)(6) of the Texas Constitution. Sellers should not rely on MK Lending's categorization of a loan as a "Cash-Out Refinance" for purposes of determining whether compliance with the Texas Constitution is required. Sellers should instead consult with their own legal or compliance resources to determine the applicability of Article XVI, Section 50(a)(6) to a specific transaction.

- Please refer to MK Lending program matrices for specific details regarding maximum LTV and Cash-Out amounts. Please note: Cash-Out includes funds received AT closing as cash back and any applicable debits paid off outside the original non-purchase money transaction.

#### **6.1.4 Property Buyouts and Inherited Properties**

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- Refinances of inherited properties and properties legally awarded to the borrower, including DSCR loans, are allowed. This includes divorce, separation and dissolution of a domestic partnership. Seasoning requirements do not apply, and the following guides must be met:
  - Written agreement signed by all parties stating the terms of the buyout and property transfer must be obtained
  - Equity owners must be paid through subject loan's settlement
  - Subject property has cleared probate and property is vested in the borrower's name
  - Current appraised value is used to determine loan-to-value

#### **6.1.5 Subordinate Finance**

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- New subordinate financing (institutional) allowed for purchase transactions only
- Primary residences only
- If a HELOC is present the LTV / CLTV must be calculated by dividing the sum of the original loan amount of the first mortgage, the line amount of the HELOC (whether or not there have been any draws), and the unpaid principal balance of all other subordinate financing by the lower of the property's sales price or appraised value
- All subordinate loan obligations must be considered, verified, and considered when calculating the Borrower's DTI
- If the subordinate financing is a HELOC secured by the subject property, monthly payments equal to the minimum payment required under the HELOC terms considering all draws made on or before closing of the subject transaction
- For closed-end fixed rate, fully amortizing simultaneous loans, the qualifying payment is the monthly payment
- Interest Only not permitted
- Existing subordination is permitted on refinances

#### **6.1.6 Flip Transactions**

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- When the subject property is being resold within three hundred sixty-five (365) days of its acquisition by the seller and the sales price has increased more than ten (10%), the transaction is considered a "flip". To determine the three hundred sixty-five (365) day period, the acquisition date (the day the seller became the legal owner of the property) and the purchase date (the day both parties executed the purchase agreement) should be used
- Flip transactions are subject to the following requirements:
  - All transactions must be arm's length, with no identity of interest between the buyer and property seller or other parties participating in the sales transaction
  - No pattern of previous flipping activity may exist in the last twelve (12) months. Exceptions to ownership transfers may include newly constructed properties, sales by government agencies, properties inherited or acquired through divorce, and sales by the holder of a defaulted loan
  - The property was marketed openly and fairly, through a multiple listing service, auction, for sale by owner offering (documented) or developer marketing
  - No assignments of the contract to another buyer

- If the property is being purchased for more than 5% above the appraised value, a signed letter of acknowledgement from the Borrower must be obtained
- An additional appraisal product is required. See 13.2 Third Party Appraisal Review Process

Flip transactions must comply with the HPML appraisal rules in Regulation Z. The full Reg Z revisions can be found at:

<https://www.consumerfinance.gov/rules-policy/final-rules/appraisals-higher-priced-mortgage-loans/>

- A second appraisal is required prior to closing, in the following circumstances:
  - Greater than ten (10%) increase in sales price if seller acquired the property in the past ninety (90) days
  - Greater than twenty (20%) increase in sales price if seller acquired the property in the past one hundred eighty (180) days
  - The Borrower may not pay for the 2nd appraisal

### 6.1.7 Delayed Financing

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- Delayed purchase financing is available when a property was purchased by a Borrower using cash, within one hundred eight days (180) of the date of purchase to the new mortgage Note date
  - The original purchase transaction must be an arm's length transaction
  - The source of funds for the original purchase transaction must be documented (bank statements, personal loan documents, HELOC from another property as example)
  - The maximum LTV/CLTV for the transaction will be based on the lower of the current appraised value of the subject or the purchase price plus any of the fully documented improvements such as invoices and/or receipts for work performed and confirmed by the appraiser
  - The preliminary Title must confirm that there are no existing liens on the property
  - The loan is considered a Cash Out transaction. Cash Out loan, LTV and other limitations apply

### 6.1.8 Temporary Interest Rate Buydowns

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- MK Lending permits Temporary Interest Rate Buydowns in accordance with the Fannie Mae Seller Guides. Please default to the Fannie Mae Seller Guides unless specifically mentioned in the overlays below
  - There will be special delivery/servicing transfer instructions for loans with Temporary Interest Rate Buydowns.
- MK Lending permits Temporary Interest Rate Buydowns for the P&L Plus & VOE Plus, and Alt Doc Plus programs.
  - Temporary Interest Rate Buydowns Not permitted on DSCR, Interest Only loans and loans with a 40-year maturity.

### 6.1.9 Eligibility

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- When qualifying the borrower, loans that have a Temporary Interest Rate Buydown must be qualified at the initial note rate without consideration to the "bought down" rate
- The total dollar amount of the Temporary Interest Rate Buydown must be consistent with the terms of the buydown period
  - A buydown period may not be greater than 36 months
  - A buydown period may not have increases of more than 1% in the portion of the interest rate paid by the borrower in each 12-month interval
- Eligible Transaction Types – The following table lists the transaction types that are eligible and ineligible for temporary buydowns:

Transaction Type	Eligibility
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Principal Residence	Eligible
Second Homes	Eligible
Investor Properties	Ineligible
Cash-Out Refinance	Ineligible
ARMs	Restricted

- ARM's and Temporary Interest Rate Buydowns – The following provides parameters pertaining to ARMs subject to temporary interest rate buydowns
  - Must be secured by a principal residence or second home
  - ARM plans can be structured with either a 3-2-1 or a 2-1 buydown

## 6.2 Ineligible Transactions

- Assignment of Contracts
- Construction Loans
- Builder Bailout & Model leasebacks
- Conversion Loans
- Rent Credits
- Non-Arm's Length
  - Buyer and Seller having a relationship or business affiliation
  - Employee of a Seller, Broker or Originator that is party to the subject loan
- Lease Option
- Daily Simple Interest Loans
- Tenants in Common, unless all parties vested match the actual borrowers on the loan

# 7 Credit Eligibility

## 7.1 Credit Report Detail

- A tri-merged in file credit report from all three repositories is required
- A written explanation for all inquiries within ninety (90) days of application is required disclosing no new debt
- Alternate confirmation that there is no new debt may include a new credit report, pre-close credit score soft-pull or gap report
  - DTI should be recalculated based on any new debt
  - Any new credit scores must be reviewed for qualifications

## 7.2 Housing History

- Twelve (12) months housing history is required. Twelve (12) month mortgage/housing history includes all occupancy types – Primary, Second Home and Investment Properties. If primary housing is documented as free and clear, no exception is needed; this includes whether or not the borrower is on the Note or Vested on Title of their primary.
- If the subject property has delinquent taxes > one year from the Note date, this will be considered on a case-by-case basis and will require an exception by MK Lending, subject to LLPA
  - Any additional delinquencies in the housing history will be subject to review and must adhere to the matrix
- For DSCR Plus a credit report or VOM/VOR is required on the subject property (if a refinance) and the borrower's primary residence only

- All mortgages and rental payments should be current at time of closing. If the credit report or VOR/VOM reflects a past-due status, updated documentation is required to verify the account is current
  - This includes loans qualifying through DSCR Plus even if the account showing the delinquency is not the subject or primary residence
- Housing history evidenced by twelve (12) months proof of payment via cancelled checks, bank debits or institutional VOR
  - Private Party VORs / VOMs without supporting documents may be considered on a case-by-case basis and requires an exception from MK Lending, subject to LLPA
  - If the borrower is living rent-free as a dependent with family and a 12 month housing history is not applicable, a rent-free letter is required. For first-time homebuyers, rent-free is permitted with no credit exceptions
- LOE or rent-free letter is required when a twelve (12) month housing history is not applicable. If the borrower is a FTHB, rent-free is permitted with no credit exceptions
- Past due balloon will be considered a delinquency (1x30) and not a housing event, but only within one hundred eighty (180) days of maturity

### 7.3 Credit Scores

- To determine the Representative Credit Score, select the middle score when three (3) agency scores are provided and the lower score when only two (2) agency scores are provided
- Credit rescoring is not allowed except in the event of a disputed item or valid error. Documentation must be provided to support the reason that a credit rescore was performed

### 7.4 Tradelines

- If the primary borrower has three (3) credit scores, the minimum tradeline requirement is waived.
- Each Borrower's credit profile must include a minimum of two (2) trade lines within the last twenty-four (24) months that show a twelve (12) month history, or a combined credit profile between Borrower and Co-Borrower with a minimum of three (3) tradelines
- Tradeline activity is not required; can be opened or closed. Examples of unacceptable tradelines include loans in a deferment period, collection or charged-off accounts, accounts discharged through bankruptcy and authorized user accounts
- Current housing not reporting on credit can be considered an open trade if supported by bank records (cancelled checks / debits)
- Borrower(s) not using income to qualify are not required to meet the minimum tradeline requirements listed above
  - This does not pertain to DSCR loans, where the borrower(s) or guarantor(s) must adhere the tradeline requirements above
- Authorized user accounts must be used to calculate DTI ratio but will not be included in the number of tradelines.

### 7.5 Credit Events

- Prior Bankruptcies (Chapter 7, 11, 13) are permitted based upon respective MK Lending Program Matrix. Multiple bankruptcies are not permitted
- Prior Foreclosure, Short Sale, Deed-in-Lieu, and Modification (due to default), Notice of Default, Lis Pendens, and 120+ days delinquency is permitted based upon respective MK Lending Program Matrix
- Borrowers currently enrolled in credit counseling or debt management plans are not permitted
- All Judgments or liens affecting title must be paid
- Non-title charge-offs and collections within three (3) years and exceeding \$5,000 (individually or aggregate) must be paid
- Medical collections less than \$15,000 are not required to be paid
- All past due accounts must be brought current prior to closing

- Disputed accounts may require a LOE
- IRS tax payment plans approved by the IRS are permitted if current and do not carry a lien on any property
- All Borrowers must be current on mortgage or rent at loan application
- All derogatory revolving and installment accounts > sixty (60) days within four (4) years of closing require a full explanation
- Delinquent credit belonging to ex-spouse can be excluded if late payments occurred after the divorce / separation, and divorce decree / separation agreement indicates derogatory accounts belong solely to the ex-spouse
- Security freeze – Credit reports may not contain a security freeze and should be resolved prior to an underwriting decision. Unfrozen reports after the date of the original credit report require a new tri-merged report
- Defaulted timeshares – Timeshares including delinquencies are treated as installment loans and not a housing event

## 8 Income Documentation

Unless otherwise noted in the MK Lending Non-QM Program Guidelines or in a specific MK Lending Program Matrix, all borrowers should have a two-(2) year income history from employment or other allowable sources. The expectation is that income year over year is stable or shows a trend with a gradual increase. This type of income should be averaged for the borrower(s) gross monthly income used to qualify. A reasonable expectation should be present that the borrower(s) source(s) of income will continue for the foreseeable future.

In cases where a borrower(s) income is declining or shows unusual or unexpected fluctuation, careful consideration must be given to the income being reviewed and the reason for the decline or fluctuation. Proper discretion must be exercised to determine the extent or probability of impairment of the borrower's income and earning ability moving forward. Conservatively, the lesser income should be used when a declining situation is present. A letter of explanation is required from the borrower(s) to support the circumstances. Borrowers that show continued declining income without a reasonable explanation or proof that the trend will not continue are not eligible to use that income for qualification.

- Combined Income Documentation may be used between separate borrowers on the same loan (spouses for example).
  - Borrower 1 is Self-Employed and Borrower 2 is a wage-earner (employed by spouse not permitted)
- Cases of combined income types for the same borrower are generally not permitted. Please contact [guideline@mklending.com](mailto:guideline@mklending.com) for questions or additional information

### 8.1 12 Month Profit & Loss (P&L)

#### 8.1.1 Eligibility

- Self-employed Borrower(s) only. Borrower(s) who file their own tax returns are not eligible
- Minimum of two (2) years self-employment in the current profession
  - Validation of a minimum of two (2) years existence of the business from one of the following: Business License, Letter from Tax Preparer, Secretary of State Filing or equivalent
- Self-Employed defined as Borrower owning >=50% ownership of respective business
- Ownership percentage must be documented via Certified Public Account ("CPA")/IRS Enrolled Agent ("EA")/California Tax Education Council ("CTEC") letter
- The CPA/EA/CTEC preparing the P&L must have filed the Borrower's most recent business tax returns

#### 8.1.2 Documentation Requirements

- Most recent 12-month Profit & Loss statement (P&L). P&L end date must be less than sixty (60) days old at closing
- All Profit & Loss statements must be completed by an independent CPA/EA/CTEC
- The CPA/EA/CTEC prepared P&L must be signed by both the Borrower and CPA/EA/CTEC
- CPA/EA/CTEC must provide attestation that they prepared Borrower's tax returns and that that are not related to the Borrower or associated with Borrower or Borrower's business
- The CPA/EA/CTEC must attest that they have performed either the following functions:

- Audited the business financial statements
- Reviewed working papers provided by the Borrower
- Credit file must contain documentation that the CPA/ CTEC license is verified and active. A screen shot of the IRS web site for an IRS Enrolled Agent (EA) is acceptable
- Borrower narrative on nature of business required
- An internet search of the business is required with documentation to be included in the credit file to support existence of the business
- Employment verification documentation must be consistent with information on the loan application and Borrower's credit report
- Verification of business existence and that the business is fully operational/active required within ten (10) calendar days of closing

### 8.1.3 Qualifying Income

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- **Qualifying income is the lower of the 12 Month Profit & Loss statement (P&L) or monthly income disclosed on the initial signed 1003**

## 8.2 Written Verification of Employment (WVOE)

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### 8.2.1 Eligibility

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- Wage earners only
- Two (2) years history of employment in same industry and 1-year continuous employment at current job

### 8.2.2 Documentation Requirements

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- A Written Verification of Employment (FNMA Form 1005) can be utilized when the only source of earnings is wages/salary
- FNMA Form 1005 must be fully completed by Human Resources, Payroll Department, or an Officer of the Company.
- Borrower(s) employed by a family member or related individuals are not eligible for qualification under the WVOE program
- FNMA Form 1005 must have a twenty-four (24) month history of wage earnings/salary
- FNMA Form 1005 must contain the following:
  - Dates of employment
  - Position
  - Prospect of continued employment
  - Base pay amount and frequency
  - Gross Earnings: year to date plus last two (2) year's earnings, or at least one (1) year earnings if current job is less than two (2) years
  - Additional salary information
  - Bonus
  - Overtime
  - Tips
  - Commission Income
  - Paystubs, Tax Returns, 4506-C, or W-2's NOT required
- A Verbal Verification of Employment (VVOE) must be performed within ten (10) calendar days prior to the funding date
- A Borrower who is no longer employed at the same employer listed on the initial 1003 will not be eligible for purchase by MK Lending
- VVOE should include name of contact at place of employment, phone number and title along with company name, address and Borrower's job description and title. Verbal verification of employment for previous jobs within last two (2) years
- Employment verification documentation must be consistent with information on Borrower's credit report

### 8.2.3 Qualifying Income

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- **Qualifying income is the lower of the income disclosed on the FNMA Form 1005 or monthly income disclosed on the initial signed 1003**

## 8.3 1099

### 8.3.1 One (1) year IRS 1099

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- Generally limited to single employer and in scenarios where the Borrower receives multiple 1099's, the Borrower must be in an industry where this is a common occurrence (entertainment, medical contractor, etc.)
- Most recent 1099(s) required
- A 10% Expense Factor will be applied
- Three (3) months bank statements (YTD must cover minimum of thirty (30) days)
- All borrowers must provide evidence business has been in existence for at least two (2) years via CPA /Tax preparer letter.
- 4506-C 1099 transcripts required
- Verification of business existence and the business is fully operational /active required within ten (10) calendar days of closing

## 8.4 Asset Depletion / Asset Qualifier

- Our asset-based programs are designed to meet the Ability to Repay ("ATR") requirements. This is accomplished by requiring a debt to income ("DTI") in our Asset Depletion program and the requirement of a residual income calculation in our Asset Qualifier program. The unrestricted liquid assets of both programs can be comprised of stocks / bonds / mutual funds, vested amount of retirement accounts and bank accounts
- For Asset Depletion, the utilization of financial assets will be considered as Borrower income to qualify for their monthly payments
- For Asset Qualifier, the utilization of financial assets will be used to calculate a Borrower's residual income
- A Borrower using Asset Depletion / Asset Qualifier cannot use other sources of employment income

### 8.4.1 Program Requirements

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- Asset Depletion / Asset Qualifier will be qualified with restrictions outlined on our Alt Plus program matrix.
- Reserves are not required for the Asset Depletion and Asset Qualifier programs
- Asset Depletion Requirements:
  - Borrowers must have a minimum of the lesser of \$1mm in Qualifying Assets OR must have Qualifying Assets  $\geq$  to 125% of the original subject loan amount
- Asset Qualifier Requirements:
  - Borrowers must have a residual income greater than or equal to Section 12.3 Residual Income
  - Total post-closing assets must be  $\geq$  to 125% of the original subject loan amount
- Not permitted:
  - Second Home or Investment properties
  - Cash-Out
  - Gift funds
  - Business Assets
  - Trust Assets
  - Foreign Assets
  - Non-Occupant Co-Borrower

### 8.4.2 Eligibility

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- Borrowers must have a minimum of \$450K in Qualifying Assets across both Asset Depletion / Asset Qualifier
- Assets used for qualifying must be seasoned for one hundred twenty (120) days
- Bitcoin or other forms of cryptocurrency can be utilized as “Qualifying Assets” to the extent the cryptocurrency was converted or liquidated to cash and the cash holding meets seasoning requirements of one hundred twenty (120) days. Cryptocurrency that has not been converted or liquidated to cash (still in cryptocurrency form) cannot be utilized as a Qualifying Asset
- Net Assets:
  - If the assets or a portion of the assets are being used for down payment or costs to close, those assets should be excluded from the balance before analyzing a portfolio for income qualification
- Qualifying Assets:
  - Net assets multiplied by the following percentages:
    - 100% checking / savings / money accounts
    - 80% of the remaining value of stocks / bonds / mutual funds
    - 70% for all vested retirement assets

### 8.4.3 Qualifying Income

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- Asset Depletion: Qualifying Assets with utilization draw schedule of seven (7) years (Qualified Assets divided by eighty-four (84)) will be used as qualifying income
- Asset Qualifier: To determine residual income, Qualifying Assets will be divided by eighty-four (84) months. From this number, subtract the Borrower’s total monthly debt obligation (total liabilities) to come up with the Borrower’s residual income. Do not impute tax deductions when determining residual income. Residual income must meet or exceed Section 12.3 Residual Income

## 8.5 Bank Statements

- The Bank Statement Program is designed for borrowers with an active U.S. based business that is generating stable revenue. Borrowers that only receive income from passive or portfolio sources are ineligible (e.g., borrower managing their own rental properties, distributions from limited partnership, day trading, property flippers, etc)
- Bank Statement loans submitted with tax returns or tax transcripts are ineligible.
- Borrowers paid 1099 from a single company are not eligible for Bank Statement qualification and must qualify through Section 8.3
- Borrowers who are using more than three (3) businesses to qualify must use Personal Bank Statement option

### Documentation Requirements

- Twelve (12) or Twenty-four (24) months consecutive most bank statements required
- Any loan submitted with less than twelve (12) months of consecutive bank statements will not be eligible for purchase by MK Lending
- Business Narrative may be needed if deposits are inconsistent or at the underwriter’s discretion.
- Business narrative must include details relating to the size / score and operating profile of the business, including the following:
  - Description of Business / Business Profile
  - Location and Associated Rent
  - Number of Employees / Contractors
  - Estimated Cost of Goods Sold if any
  - Materials / Trucks / Equipment
  - Commercial or Retail Client Base
- An internet search of the business is required with documentation to be included in the credit file to support the Business Narrative. Underwriter certification (or notation on the 1008) if there are not returns when attempting an internet search



- Verification of business existence and that the business is fully operational / active required within ten (10) calendar days of closing
- Multiple bank accounts may be used
- Co-mingling:
  - Co-mingling of personal and business accounts is not permitted in personal bank accounts. Evidence of comingling will require the loan to be submitted / qualified as a business bank statement loan
  - Two (2) months of business bank statements must be provided to validate Borrower utilizes separate banking accounts

## 8.5.1 Personal Bank Statements

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### 8.5.1.1 Documentation Analysis

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- Any deposits into a personal account deemed to derive from a source other than the business (rents, SSI, joint account holder wage income, IRS refunds) must be excluded from the analysis
- Unusually large deposits exceeding 100% of monthly income into bank accounts must be explained via LOE and must be consistent with the business profile. If LOE is sufficient, no sourcing required
- Two (2) months of business bank statements are required. These statements should evidence activity to support business operations and reflect transfers to the personal account
  - A borrower who only utilizes a personal account for business activity and does not have an associated business account is eligible to qualify through Section 8.5.2 (Business Bank Statements)
  - Co-mingling of personal and business receipts is not permitted
- If bank statements provided reflect payments being made on obligations not listed on the credit report, a thorough analysis must be performed and LOE provided from the Borrower
- Declining Income may require an LOE

### 8.5.1.2 Business Documentation Requirements

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- Validation of a minimum of two (2) years existence of the business is required
- Ownership percentage must not be less 25% and documented via CPA letter, Operating Agreement, or equivalent
- Borrowers who own more than three (3) businesses must use personal bank statements option

### 8.5.1.3 Qualifying Income

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- For personal bank statement documentation, it is the **lower** of the following:
  - Personal bank statement average (total eligible deposits / 12 or 24 months)
  - If borrower has declining income and is qualifying with twenty-four (24) months bank statements, the last twelve (12) months of income will be utilized to qualify.
  - Monthly income disclosed on the initial signed 1003

## 8.5.2 Business Bank Statements

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### 8.5.2.1 Documentation Analysis

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- Transfers from other bank accounts into the business bank accounts will require conclusive evidence that the source of transfer is business related income
- Large deposits exceeding 100% of monthly income into bank accounts must be explained via LOE and must be consistent with the business profile. If LOE is sufficient, no sourcing required
- Declining Income may require an LOE
- NSFs may require a Borrower LOE documenting they are not due to financial mishandling or insufficient income. A maximum of 3 NSF occurrences within a twelve-month period are allowed. If there are zero occurrences in the most recent three-month period, up to 6 occurrences

in the most recent twelve-month period are acceptable. NSF's should be covered with deposits shortly after they are incurred.

- Expense line items that can be added back to the business net income include depreciation, depletion, amortization, casualty losses, and other losses or expenses that are not consistent and recurring

#### **8.5.2.2 Business Documentation Requirements**

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- Validation of a minimum of two (2) years existence of the business required.
- Ownership percentage must be documented via CPA letter, Operating Agreement, or equivalent
- Minimum **50%** business ownership required
- Borrowers utilizing business bank statements that own > 50% but < 100% of a business will be qualified at the net income multiplied by their ownership percentage

#### **8.5.2.3 Qualifying Income (Three Options)**

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##### **Option 1 (Standard Expense Ratio)**

- Standard 50% expense ratio may be used.
- Qualifying income will be the lower of the Expense Ratio formula or monthly income disclosed on the initial signed 1003
- Expense ratio should be reasonable for the profession

##### **Option 2 (3<sup>rd</sup> Party Profit & Loss Statement)**

- Qualifying income is the lower of the Profit & Loss ("P&L") net income from the validated third-party prepared P&L or monthly income disclosed on the initial signed 1003
- Businesses qualifying with a P&L statement showing less than a 15% expense ratio will be limited to a 15% ratio. Expense ratio should be reasonable for the profession
- Borrower prepared P&L will not be permitted under any circumstances
- Business Bank Statements are used to validate third-party prepared P&L. Gross revenue listed on P&L must be within +/-10% of the total qualified deposits
- Following documentation is required:
  - Twelve (12) months complete business bank statements from the same account (transaction history print outs are not acceptable)
  - Business bank accounts, personal bank accounts addressed to a DBA or personal accounts with evidence of business expenses can be used for qualification
  - P&L statement must be prepared by a Tax Professional
    - Tax Professional defined as a Certified Public Accountant ("CPA"), Tax Attorney, Enrolled Agent ("EA"), California Tax Educational Council member ("CTEC") or Paid Tax Professional (PTIN)
  - P&L statement must cover the same months as the bank statements submitted
  - P&L must be signed by the Borrower and the Tax Professional
  - Tax Professional must attest that they have audited the business financial statements or reviewed working papers provided by the Borrower
  - Tax Professional must attest that they are not related to the Borrower or associated with the Borrower's business
  - Tax Professional must have filed the Borrower's most recent two (2) years business tax returns

##### **Option 3 (3<sup>rd</sup> Party Expense Ratio)**

- Qualifying income is the lower of the 3rd Party Prepared Expense Ratio net income or monthly income disclosed on the initial 1003
- To determine net income, multiple eligible business deposits by the following: (100% minus the Expense Ratio) / 12 OR 24 months)

- 3rd Party Prepared Expense Ratio floored at 15%
- If a borrower has declining income and is qualifying with twenty-four (24) months of business bank statements, the last twelve (12) months of income will be utilized to qualify
- The Expense Statement must be prepared and signed by a third-party Tax Professional specifying business expense as a percentage of the gross annual sales / revenue
- Self-employed Borrowers who have filed their own business tax returns are ineligible
- Following documentation is required:
  - Twelve (12) or twenty-four (24) months complete business bank statements from the same account (transaction history print outs are not acceptable)
  - Business bank accounts, personal bank accounts addressed to a DBA or personal accounts with evidence of business expenses can be used for qualification
  - Tax Professional must attest that they have audited the business financial statements or reviewed working papers provided by the Borrower
  - Tax Professional must certify that the Expense Statement represents an accurate summary of the applicable cash expenses of the business
  - Tax Professional must attest that they are not related to the Borrower or associated with the Borrower's business
  - Tax Professional must have filed the Borrower's most recent two (2) years business tax returns
  - Tax Professional license must be verified and signed

## 8.6 Supplemental Income Sources

### 8.6.1 Rental Income (Non-DSCR)

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#### 8.6.1.1 Eligibility

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- Rental Income is permitted for both purchase and refinance transactions including non-subject properties
- 100% ownership is not required. Allowed income will be calculated based on ownership percentage and 100% of PITIA must be used regardless of ownership percentage

#### 8.6.1.2 Documentation Requirements

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- Lease agreement and two (2) months cancelled checks to show proof of rental payments or if subject is recently rented, a copy of two of the following will be acceptable (first month's rent, last month's rent, security deposit)
- Evidence that rent is market rate (free online source is permitted)

#### 8.6.1.3 Calculation

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- Purchase transactions the lower of
  - 75% of Rental income on the 1007 rental schedule; OR
  - Existing lease from current tenant
- Refinance (Including Non-Subject Properties)
  - 75% of fully executed lease agreement supported with 2 months evidence of rent receipt.

### 8.6.2 Short Term Rental (NON-DSCR)

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#### 8.6.2.1 Eligibility

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- STR rental income is permitted for both purchase and refinance transactions
- STR income must be legally permitted and considered common for the area as confirmed by the appraisal and/or property location

### **8.6.2.2 Documentation Requirements**

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- STR income may be documented using a supplemental appraisal form completed by the licensed appraiser who performed the original appraisal. This form must accompany and be a part of the original appraisal
- Income must be verified through a third-party property management provider
  - Vendors such as Airbnb, Air DNA, VRBO, and HomeAway are acceptable
  - Documentation must include the property address or unique property ID specific to the subject property

### **8.6.2.3 Calculation**

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- Purchase: Gross rent is based on 75% of 1007 market rent stated in the appraisal
- Refinance: Gross rent is the lower of
  - 75% of 1007 market rent on appraisal
  - 100% of actual 12-month STR income history supported by documentation from Airbnb, Air DNA, VRBO, HomeAway or a third-party property management provider. 12-month history is required.

### **8.6.3 Alimony Income / Child Support**

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- Final Divorce decree or legal separation agreement required with evidence of three (3) year continuance
- Must provide payment evidence of six (6) months via cancelled checks, deposit slips, or bank records

### **8.6.4 Note Receivable Income**

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- Copy of the note confirming amount and length of payment and evidence of three (3) year continuance
- Must provide payment evidence of twelve (12) months via cancelled checks, deposit slips, or bank records

### **8.6.5 Royalty Payment Income**

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- Royalty contract, agreement, or statement confirming amount, frequency, and duration of the income –must document a three (3) year continuance
- Must provide payment evidence of twelve (12) months via cancelled checks or bank records / deposits

### **8.6.6 Retirement Income**

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- The following types of income documentation is required:
  - Copy of award letter or letters from the organizations providing the income and duration of the income – must document a three (3) year continuance
  - Most recent six (6) months bank statements showing deposit of funds

### **8.6.7 Self Employed / Wage Earner Combination**

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- Joint Borrowers with one (1) wage earner and one (1) self-employed business owner can verify income separately, with the self-employed Borrower utilizing 12 Month Profit & Loss “(P&L)” and the wage earner providing WVOE
  - Combination scenario must be qualified and priced to the income verification with the highest loan level pricing adjustments (“LLPAs”)

## **9 Debt Service Coverage Ratio (“DSCR”) Plus Program, Non-Owner Occupied Only**

### **9.1 DSCR Calculation**

- A Debt Service Coverage Ratio (DSCR) ratio is required.  $DSCR = \text{Gross Rental Income} / \text{PITIA}$  or  $DSCR = \text{Gross Rental Income} / \text{ITIA}$  for Interest Only loans
- DSCR loans will be qualified at original Note Rate, regardless of ARM or Fixed
- Gross Income will be calculated using the lower of the A) executed lease agreement or B) market rent from applicable Appraisal
- If executed lease agreement reflects a higher monthly rent than Appraisal, it may be used in the calculation with sufficient evidence of receipt. Three (3) most recent, consecutive months should be provided
- Vacant properties Not eligible for Refinance with the exception of properties currently vacant due to the subject property having undergone recent renovation or rehab, with the intention of being rented out soon. Support of this must be provided via the appraiser confirmation recent work completed and providing visual evidence. In scenario like this, market rent from the 1007 schedule in the property appraisal may be used to qualify
- Any loan where Cash Out proceeds would be utilized for personal use will not be eligible for the MK Lending DSCR Plus program

## 9.2 Short Term Rental Income ( DSCR)

### 9.2.1 Eligibility

- STR rental income is permitted for both purchase and refinance transactions
- STR income must be legally permitted and considered common for the area as confirmed by the appraisal and/or property location
- **Maximum CLTV 70% and Minimum DSCR is 1**

### 9.2.2 Documentation Requirements

- STR income may be documented using a supplemental appraisal form completed by the licensed appraiser who performed the original appraisal. This form must accompany and be a part of the original appraisal
- Income must be verified through a third-party property management provider
  - Vendors such as Airbnb, Air DNA, VRBO, and HomeAway are acceptable
  - Documentation must include the property address or unique property ID specific to the subject property

### 9.2.3 Calculation

- Purchase: Gross rent is based on 100% of 1007 market rent stated in the appraisal
- Refinance: Gross rent is the lower of
  - 100% of 1007 market rent on appraisal
  - 100% of actual 12-month STR income history supported by documentation from Airbnb, Air DNA, VRBO, HomeAway or a third-party property management provider. 12-month history is required.

## 9.3 Reserve Requirements

- Reserves are calculated off actual P&I payment plus taxes, insurance and HOA fees (PITIA)
- For Interest Only loans, reserves will be calculated off the initial Interest payment, plus taxes, insurance and HOA fees (ITIA)
- No requirement for additional reserves for other financed properties, Subject Property reserves only
- See MK Lending DSCR Matrix for specific reserve requirements.
- Cash-Out proceeds can be utilized for reserves on loans

## 9.4 Employment Verification

Employment and Income are not required on DSCR.

## 9.5 Professional Investors

- MK Lending DSCR Plus Program is only eligible for Professional Investors
- Professional Investors must have at least twelve (12) months of experience owning and/or managing income-producing real estate within the most recent thirty-six (36) months from the origination of the Note
- First Time Investors are allowed provided that the DSCR is >1.0, the Credit Score is >700 and there are no exceptions on the file
- First Time Investors MAY NOT be a First Time Homebuyer
- A Letter of Explanation (LOE) by the Borrower/Guarantor is required to detail relevant real estate experience
- MK Lending reserves the right to request specific documentation to validate the LOE

## 9.6 Rent Loss Insurance

- Rent loss insurance for the subject property is required and must equal at least six (6) months of local average monthly rents
- Blanket policies covering the subject property are permitted

## 9.7 Recourse/Guarantee

- Personal recourse required
- All Borrower(s) should execute the MK Lending Personal Guaranty Agreement if applicable

## 9.8 Assignment of Rent

- 1-4 Family Rider/Assignment of Rents must be in origination file (FNMA Form 3170)

## 9.9 Cash Out

- Cash out proceeds on a refinance loan are allowed with the following requirements:
  - Borrower must have owned the subject property 12+ months using data of original acquisition and subject loan note date for timing
  - Cash Out is for Business Purposes only and the borrower must provide an LOE detailing the purpose and use of the proceeds. While maintaining the property is acceptable use for cash out proceeds, major renovations, rehab, etc. are not permitted on subject property that could deem the property uninhabitable.
  - For DSCR Borrower(s) obtaining a Rate/Term or Cash Out Refinance loan, the Borrower must execute the MK Lending Business Purpose & Occupancy Affidavit
- All Borrower(s) must execute the Occupancy Certification
  - Please refer to MK Lending Program Matrix for specific details regarding maximum LTV and Cash Out amounts

# 10 Assets

## 10.1 Documentation

- Full Asset Documentation is required for both funds to close and reserves. For most asset types, this would include all pages of the most recent one-month (1) statement, the most recent quarterly statement, or FNMA approved third party direct pull services
- Publicly traded Stocks / Bonds / Mutual Funds – 100% may be used for reserves
- Vested Retirement Accounts – 100% may be considered for reserves

- Bitcoin or other forms of cryptocurrency are permitted for both funds to close and reserves provided the cryptocurrency has been converted or liquidated to cash. Seasoning requirements not applicable given liquidation
- If needed to close, verification that funds have been liquidated (if applicable) is required. Follow FNMA guides on liquidation when used for the down payment or closing costs and when they are used for reserves
- Gift of Equity is not allowed
- Builder profits are not allowed
- Maximum Interested Party Contributions permitted up to 6%
- Rent credits not permitted
- Large deposits defined as any single deposit that represents greater than 100% of the borrower's qualifying monthly income need to be sourced.
- DSCR large deposits should be in line and consistent with the borrower's overall credit profile and may require sourcing.

## 10.2 Business Assets

- Business assets are an acceptable source of funds for down payment, closing costs, and reserves for self-employed borrowers, all of the following must be met
- The borrowers on the loan must have a minimum of 50% ownership of the business and must be owners on the business account
- Ownership percentage must be documented via CPA letter, Operating Agreement, or equivalent
- All non-borrowing owners of the business must provide a signed and dated letter acknowledging the transaction and confirming the borrower's access to funds in the account
- The balance of the business assets must be multiplied by the ownership percentage to determine the owner's portion of business assets allowed for the transaction
- A signed letter from a CPA must also be obtained verifying that the withdrawal of funds for the transaction will not have a negative impact on the business

## 10.3 Gift Funds

- Gifts from family members, as defined by FNMA, are allowed
- Gift funds may only be used for Purchase transactions
- Gift fund requirements:
  - Gift funds are acceptable as 100% of down payment for loans with < 75% LTV/CLTV
  - Gift funds are acceptable for loans with >= 75% after Borrower(s) minimum contribution of 5% is met from their own funds
- Gift funds not permitted:
  - Second homes and Investment properties with > 80% LTV/CLTV
  - Borrowers utilizing Asset Depletion / Asset Qualifier
  - Refinance transactions
  - To meet reserve requirements

## 10.4 Other Asset Sources

### 10.4.1 Life Insurance Cash Value

- Life insurance policy current cash value or loan against the cash value may be used for down payment, closing costs or reserves

### 10.4.2 Foreign Assets

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- Foreign assets are acceptable and must be sixty (60) days seasoned with two (2) most recent bank statements. A currency calculation must be provided
- Assets from countries under OFAC sanctions are not permitted

### 10.4.3 Non-Borrowing Spousal Accounts / Access Letters

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- Allowable with relationship letter. If the loan is a bank statement loan or 12-month P&L loan, non-borrowing joint account holder affidavit is required to ensure no deposits by that non-Borrower is included as income

### 10.4.4 1031 Assets

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- Funds held by a 1031 administrator / agent are permitted for down payment and closing costs. Reserves not permitted.

### 10.4.5 Sale of Personal Assets

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- Proceeds from the sale of personal assets are an acceptable source of funds for the down payment, closing costs, and reserves provided the individual purchasing the assets is not a party to the property sale transaction or the mortgage financing transaction. Documentation required supporting Borrower ownership of the asset, independent valuation of the asset, ownership transfer of the asset and Borrower's receipt of sale proceeds

## 11 Liabilities

### 11.1 Departing Residence:

- Departing residence positive rental income cannot be used to qualify. Departing residence PITIA/ITIA can be offset by 75% of projected net rental income or if subject is recently rented, a copy of two of the following will be acceptable (first month's rent, last month's rent, security deposit).

### 11.2 Property Tax Estimates for New Construction

- Property taxes should be calculated using 1.5% of sales price for qualification (1.25% in California). Use of other property tax rates is allowed provided the rates are documented in the file

### 11.3 Student Loan

- Student loan payments must be included regardless of deferment or repayment in the DTI ratio. If a payment amount is not identified, 1% of the current loan balance may be utilized
- Affordability based payments may be used

### 11.4 Solar Leases

- Must conform to FNMA guidelines
- PACE loans (or any similar loans with payments that are included in property taxes or take lien priority) are not eligible

### 11.5 Payoff of Debt to Qualify

- Installment and revolving debt paid at closing may be excluded from the debt-to-income ratio with ONE on the following: credit supplement, verification from creditor liability as paid in full, Or evidence of payoff at closing

### 11.6 Debts Paid by Others / Contingent Liabilities

- Contingent liabilities can be excluded from DTI if the Borrower provides evidence that their business or another individual / entity has made payments for twelve (12) months (0x30). Any liability related to a separation or divorce can be omitted if ordered by family court. Documentation from the court is required.



## 11.7 Obligations Paid by Business

- Excludable if can be tied to business related activities (i.e., – vehicle) and twelve (12) months (0x30) proof that business pays. Expense must be evident on business financials and the borrowing entity is an individual.

## 12 Underwriter Analysis

All loan files should contain underwriter worksheets which detail the qualifying income calculations and debt obligations considered or not considered (and reason for exclusion)

### 12.1 Compensating Factors

- A loan that exhibits a credit underwriting exception, should have at least two compensating factors that are not related to the specific exception, that are intended to offset or mitigate the exception. Each loan presents a unique and individual set of circumstances and should be reviewed and considered based on their own content. The following list of possible compensating factors identifies some common types of compensating factors that may apply to a loan.
  - FICO score above program minimum by twenty (20) points or higher
  - DTI below program maximum by 5% points or greater
  - PITIA/ITIA reserves above program minimum by six (6) months or higher
  - Reduction in housing payment by 10% or greater
  - Increase in residual income by 10% or greater
  - Residual income \$1,000 above the program minimum required
  - 0 X 30 X 24-month housing history
  - Five (5) years minimum in subject property
  - Job stability of five (5) years or more

### 12.2 Exceptions

- Exceptions to the MK Lending Program Seller guidelines will be considered on a loan-by-loan basis. Loans with exception requests should exhibit strong documented compensating factors as seen in 13.1
- MK Lending's decision to purchase or deny a loan with a documented exception to the MK Lending Program Seller Underwriting Guidelines relates only to a secondary purchase decision
- MK Lending's secondary purchase decision does not bind a client with respect to the underlying decision to extend or deny credit

### 12.3 Residual Income

- Residual income equals Gross Qualifying Income Less Monthly Debt (as included in the debt-to-income ratio)
- If the loan is an HPML, or if the DTI exceeds 43%, Borrowers must have a minimum monthly residual income as required below:

# in Household – Required Amount
1 - \$1,500
2 - \$2,500
Add \$150 for additional family members

### 12.4 Documentation Age

- Unless otherwise stated in this guide, all credit documents including credit report, income docs, and asset statements must be dated no more than ninety (90) days prior to the note date. The note date is utilized for document expiration for all

## 13 Property

### 13.1 Appraisal

- All appraisals must comply with and conform to USPAP and the Appraisal Independence Requirements, and any requirement for HPMLs, if applicable
- The appraiser must not have a direct or indirect interest, financial or otherwise, in the property or in the transaction
- An appraisal prepared by an individual who was selected or engaged by a Borrower, property seller, real estate agent or other interested party is not acceptable
- Two appraisals are required to be delivered for either of the following scenarios: loan amounts > \$2,000,000 or HPML flip transactions as defined by the CFPB. Interior photos are required
- Appraisals are good for one hundred twenty (120) days. Any appraisal dated greater than one hundred twenty (120) days will require a recertification of value completed by the original licensed appraiser and is good for an additional one hundred twenty (120) days. If the loan does not close within the initial recertification, then another update maybe obtained but the original appraisal must be dated within 12 months of the Note date.
- Legal non-conforming zoned properties must indicate that the subject property can be 100% rebuilt if it is severely damaged or destroyed
- Appraisals with condition or quality ratings of C5 or C6 will not be eligible for purchase by MK Lending
- Form 1007 Schedule of Rents is required for all Non-Owner-Occupied loans
- For 2–4-unit properties, a FNMA 1025 Small Residential Income Property Appraisal Report is required

### 13.2 Third Party Appraisal Review

- The Appraised Value (or lowest if two are required) is the only value used to determine the property value for the subject loan. Any secondary valuation products are provided only to support the value of the original appraisal and are not meant to be used as a substitute value for the property
- Loans should be submitted to MK Lending’s fulfillment vendor with a completed third-party review that validates the origination appraisal. A Clear Capital - Collateral Desktop Analysis “CDA” is acceptable.
- The Vendor Appraisal Review final opinion of value must be within -10% of the origination appraisal(s)
  - For LTV > 85% the review value must be within -5%
  - If the review value fails the above-mentioned variances the seller must provide an additional valuation report to support the origination appraisal. The required report types are as follows:
    - ◆ Field Review
    - ◆ 2055 Exterior Appraisal
- The Seller may utilize Collateral Underwriter (CU) as a secondary valuation if the score is <=2.5. File must include a copy of the Submission Summary Report
- Desk review is not required for loans with two (2) appraisals

### 13.3 Declining Market

- Properties in declining markets as determined by the appraisal Or third party valuation (ie: CDA) will require a 5% reduction to the LTV/CLTV caps for all tiers within the loan matrices

### 13.4 FEMA Disaster Areas

- Sellers are responsible for identifying areas impacted by disasters and ensuring that that subject property has not been adversely impacted
- A list of federally declared disaster areas may be found on the FEMA website at <http://www.fema.gov/disasters>.

- In addition, when there is knowledge of an adverse event occurring near or around the subject property, including but not limited to earthquakes, floods, tornadoes, or wildfires, additional due diligence is required to determine when the disaster area guidelines must be followed
- Guidelines for disaster areas should be followed ninety (90) days from the incident period, unless a completed appraisal dated post-incident is provided

#### **13.4.1 Appraisal Completed Prior to Disaster**

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- Appraisal update or final inspection from the appraiser must be obtained
- Damage that impacts the safety or habitability of the property or damage in excess of \$2000 will not be purchased by MK Lending

#### **13.4.2 Appraised After Disaster Incident**

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- Appraiser must comment on the adverse event and any effect on marketability or value
- Damage that impacts the safety or habitability of the property or damage in excess of \$2000 will not be purchased by MK Lending

#### **13.4.3 Disaster Incident Occurs After Closing, Prior to Funding**

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- A Post Disaster Inspection (PDI) Report from Clear Capital will need to be provided to MK Lending
- Any indication of damage reflected on the report will require a re-inspection by the appraiser
- Damage that impacts the safety or habitability of the property or damage in excess of \$2000 will not be purchased by MK Lending

#### **13.4.4 Verbal Verification of Employment**

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- Seller must obtain a new Verbal Verification of Employment (VVOE) if the disaster event occurs after the original VVOE was completed
- Borrower should still be employed at the same employer listed on the initial 1003 and continuing to receive the same amount of income

### **13.5 Eligible Property Types**

- One Unit Single Family Residences (Attached, Detached and Modular)
- Single Family properties with ADU (Accessory Unit Dwelling) follow FNMA requirements and restrictions
- Warrantable and Non-Warrantable Condominium Projects meeting all applicable criteria
  - Florida condo projects and associations subject to Florida SB-4D requirements will need Structural Integrity Reserve Studies and Milestone Structural Inspections subject to all state requirements. These properties will be considered on a case-by-case basis and will require an exception from MK Lending, subject to LLPA **2022D Bill Summaries-The Florida Senate (flsenate.gov)**
- 2-4 Unit Properties
- PUDs – Attached and Detached
- Townhouses
- Leasehold Properties
- Maximum of 20 acres

### **13.6 Condominium Projects**

- MK Lending accepts both Warrantable and Non-warrantable Condominium projects
- Detached Site Condominiums and 2-4 Unit Condominium Projects do not require a Project Review
- Florida condo projects and associations subject to Florida SB-4D requirements will need Structural Integrity Reserve Studies

and Milestone Structural Inspections subject to all state requirements. These properties will be considered on a case-by-case basis and will require an exception from MK Lending, subject to LLPA **2022D Bill Summaries-The Florida Senate (flsenate.gov)**

- Warrantable Condo – Full Review Required
  - Seller may review and approve FNMA warrantable projects. The Fannie Mae Condominium Questionnaire or similar as well as any other documents used to determine eligibility. Seller may request MK Lending perform a project review for warrantable projects at an additional charge.
- Non-Warrantable Condo – Full Review Required
  - Projects may be reviewed by the seller/originator or they may be submitted to the MK Lending dedicated diligence vendor for review. Please speak with your respective sales executive
- Documentation Requirements:
  - Fannie Mae Condominium Project Questionnaire or similar document
  - Project current annual budget
  - Documented HO6 insurance coverage
  - New condominiums must meet FNMA Presale Ratio Requirements
  - **Restrictions to Non-Warrantable Condos include:**
    - Risk stacking of non-warrantable features are not permitted
    - A single owner/entity may not own more than 30% of the units
    - Commercial space must be typical to the market, have no negative impact and comprise 49% or less of project space
    - Investor concentration up to 70%
    - No more than 25% of the total units in the project may be 60 days or more past due on their condo/HOA dues. This figure includes delinquencies for special assessments
    - Properties with severe deferred maintenance or critical repairs must adhere to FNMA criteria
    - Borrower must carry HO-6 coverage covering the replacement of items inside the unit. Master policy may contain Walls In coverage, if so must include **“Improvement and Betterments”** coverage
    - If the project is located in a flood zone requiring insurance (per FNMA), both the subject property and complex must have adequate flood insurance
    - Seller must confirm that the project documents do not give a unit owner or any other party priority over the rights of the first mortgagee, such as right of first refusal.
    - Mandatory dues are not allowed
    - All common areas must be 100% complete
    - HOA should be in control. Projects under builder, developer control will be considered on a case-by-case basis and will require Exception by MK Lending, Subject to LLPA
    - HOA reserves must demonstrate a minimum of 10%. No exceptions will be considered on this.
    - Projects involved in litigation are acceptable as long as the pending lawsuit(s) are not
      - Structural in nature
      - Do not affect marketability of the units
      - Potential for damages do not exceed 25% of the HOA reserved OR with documentation from the insurance carrier and attorney representing the HOA or insurance carrier that the insurance carrier has agree to provide the defense and the association’s insurance is sufficient to cover the litigation

## 13.7 Ineligible Properties

- Manufactured Homes
- Residential units with  $\geq 5$  units
- Log Homes
  - Faux Log Homes (properties with a Log Cabin aesthetic, may be eligible with exception, subject to LLPA)
- Condotels
- Cooperatives
- Condominium projects with registration services or restrictions on owner’s ability to occupy
- Unique Properties
- Unpermitted Additions
- Mixed Use Properties

- Builder Model Leaseback
- Boarding Houses
- Bardominiums
- Group Homes
- Fractional Ownership/Timeshares
- Assisted Living/Continuing Care Facilities
- Mandatory Country Club Memberships
- Zoning Violations
- Properties under Construction
- Agricultural zoned properties (may be considered case-by-case, exception required, subject to LLPA)
- Multiple dwellings on same lot (legal ADU acceptable. Limited to one)
- Working Farms
- C5 or C6 Property Condition Grades
- Live/Work Condos
- Earth Berm Homes
- Geodesic Domes
- Houseboats
- Homes on Native American Land (Reservations)
- Properties used for the cultivation, distribution, manufacture, or sale of Marijuana
- Theme Park Resort Properties
- Cooperatives (CO-OPs)

## 14 Additional Guideline Requirements

### 14.1 MK Lending Seller Program

- The MK Lending Seller Program is intended to reference and supplement Fannie Mae's Seller Guide. Originators should refer to the Fannie Mae Seller Guide for specific information concerning qualification requirements that are not specifically referenced herein. To the extent there is a difference in standards between the MK Lending Overlays and the Fannie Mae Guides; Originators may rely on the MK Lending Overlays

### 14.2 Ability Repay

- All Covered Loans must be designated as ATR compliant and must adhere to the standards set forth in the CFPB's Reg Z, Section 1026.43(c)

### 14.3 High Cost

- Federal, State, and Local High-Cost Loans are not permitted. Cured High-Cost loans are also not eligible

### 14.4 Fraud

- MK Lending has a zero-tolerance policy as it related to fraud. A fraud prevention pull is required from Data Verify, Core Logic, SAS or a similar engine

### 14.5 Hazard Insurance (1-4 Unit Properties)

- One to Four Unit Properties.
  - 100% of the replacement cost value of the improvements as of the current property insurance policy effective date, or
  - the unpaid principal balance of the loan, provided it equals no less than 80% of the replacement cost value of the improvements as of the current property insurance policy effective date.
- All other coverages/property types follow FNMA policy

### 14.6 Flood Insurance (1-4 Unit Properties)

- The minimum amount of flood insurance required for first mortgages must be equal to the less of
  - 100% of the replacement cost value of the improvements,

- the maximum coverage amounts available from NFIP, or
- the unpaid principal balance (UPB) of the loan (or loan amount at the time of origination)
- All other coverages/property types follow FNMA policy

## 14.7 Escrows

- Mandatory escrows for taxes and insurance will be required for all HPMLs (5 years) and Foreign National loans

## 14.8 Escrow Holdbacks

- Escrow holdbacks are not allowed. MK Lending will not purchase a loan with an escrow holdback

## 14.9 Assumability

- All loans are not assumable

## 14.10 Manual Underwrite

- All loans must be manually underwritten

## 14.11 Uniform Residential Loan Application (URLA)

- All loan applications taken on or after March 1, 2021 (mandatory usage date) must be submitted using the revised URLA

## 14.12 Maximum Financed Properties

- The maximum number of financed properties to any one Borrower/Guarantor is limited to twenty (20) residential properties
- Maximum MK Lending exposure to single Borrower/Guarantor: \$7.5mm in unpaid principal balance or ten (10) properties
- Borrower(s) will be required to document an additional two (2) months of reserves for each additional financed property (excludes DSCR Plus).

## 14.13 Power of Attorney

- Limited Power of Attorney (POA) is acceptable for executing closing documents, is specific to the transaction, contains an expiration date, initial 1003 is signed by the Borrower executing the POA
- Not permitted on Cash-Out transactions
- Not permitted on Entities: LLC, Corporations, Entity Borrowers

## 14.14 E-Signatures

- E-signatures are permitted with the exception of the following documents: Note, Mortgage, Deed of Trust, Closing Disclosure, Power of Attorney, documents that require a Notary signature. Riders / Addendums, and any state regulated disclosures. These documents require a wet signature

# 15 FORMS

## 1. Business Purpose & Occupancy Affidavit

2. Personal Guaranty Agreement
3. Occupancy Certification
4. Consent of Spouse
5. Self-Employed Business Narrative Form
6. Borrower Contact Consent Form
7. MK Lending Financial Loan Exception Form

## Business Purpose & Occupancy Affidavit

Loan Number: \_\_\_\_\_

Borrower(s): \_\_\_\_\_

Property Address: \_\_\_\_\_

I, the undersigned borrower(s), hereby declare that the following is true and correct:

1. I have applied for this Loan and am seeking financing for the Property for business purposes only. I do not intend to use the proceeds of the Loan for personal, family, or household purposes.
2. The proceeds of the loan will be used to purchase, improve, or maintain the Property, and I intend to operate the Property as one or more rental units for profit. If I have not executed a lease with a tenant (or tenants) at or before closing of the Loan, I intend to, and will, use commercially reasonable methods and effort to obtain a tenant (or tenants) for the Property following closing of the Loan.
3. Neither I nor any family member intend or expect to occupy the Property at any time. I will not, under any circumstances, occupy the Property at any time while the Loan remains outstanding. In addition, I will not claim the Property as my primary or secondary residence for any purposes for the duration of my Loan. I now reside, and for the duration of my Loan will continue to reside, elsewhere.
4. I understand that Lender originating the Loan in reliance upon this Affidavit. If this Affidavit is not true and correct, and in consideration of Lender making the Loan, I agree to indemnify Lender and its agents, affiliates, subsidiaries, parent companies, successors and assigns and hold them harmless from and against any and all loss, damage, liability or expense, including costs and reasonable attorneys' fees, which they may incur as a result of or in connection with my misrepresentation. I further understand that any misrepresentation in this Affidavit will constitute an Event of Default under my Loan Documents and may result in the immediate acceleration of my debt and the institution of foreclosure proceedings, eviction, and any other remedies allowable by law.
5. I understand that the agreements and covenants contained herein shall survive the closing of the Loan.
6. I understand that, based on the contents of this Affidavit, the Loan is a business-purpose loan secured by non-owner-occupied real property. I understand that this means that the Loan may not be subject to the requirements of certain federal and state consumer protection, mortgage lending, or other laws, including but not limited to the provisions of the federal Truth-in-Lending Act (15 U.S.C. §§ 190
7. 1 et seq.) and its implementing Regulation Z (12 C.F.R. Part 1026), and that my ability to avail myself of protections offered under federal and state laws for consumer-purpose residential mortgage loans may be limited.

I understand that any false statements, misrepresentations, or material omissions I make in this Affidavit may result in civil and criminal penalties.

Initial(s):

\_\_\_\_\_ The Property is not and will not be occupied by me or any member of the LLC or any family member.

Borrower(s) / Borrowing Entity Members:

NOTARY PUBLIC

\_\_\_\_\_ Date: \_\_\_\_\_

\_\_\_\_\_ Date: \_\_\_\_\_

## Personal Guaranty Agreement

In consideration of \_\_\_\_\_ having its principal place of business at \_\_\_\_\_ agreeing to lend the sum of \_\_\_\_\_ (loan amount) to \_\_\_\_\_ ( the Guarantor), does hereby unconditionally guarantee to \_\_\_\_\_ its successor or assignee, as their interest may appear (the "Mortgagee"), jointly and severally with other guarantors, the payment of the loan when due ( at maturity, by acceleration or otherwise), and any and all attorney's fees, costs, damages and expenses suffered or incurred by \_\_\_\_\_ rising out of the making of said mortgage, in the amount of \_\_\_\_\_ and interest, plus attorney's fees, costs, damages and expenses, and any and all extensions and renewals thereof.



The liability of the undersigned shall exist and continue to exist whether or not the signature or name of the undersigned appears on any evidence of indebtedness from the borrower to the Mortgagee. The undersigned hereby waives notice of the acceptance of this guaranty and of any demand for payment hereunder, presentment, demand, protest, dishonor, or default or notice thereof with respect to the above transaction.

The undersigned agrees to be liable and pay for any deficiency if the note holder forecloses the mortgage securing the note pursuant to the terms of the mortgage and the proceeds received under a foreclosure proceeding, after deduction for expenses, are not sufficient to satisfy the indebtedness of the Borrower.

No extension of time or forbearance on the part of the Mortgagee with respect to the mortgage or modification of the terms and provisions of the mortgage shall operate to release any of the Guarantor's obligations hereunder nor shall any delay on the part of the Mortgagee in exercising any of its options, powers or rights under the mortgage or hereunder or a partial or single exercise thereof constitute a waiver of any other rights hereunder.

This guaranty shall be construed as an absolute, continuing and unlimited guaranty of payment without regard to the regularity, validity, or enforceability of any liability of and obligation of the Borrower hereby guaranteed; and the Mortgagee shall not be required to proceed first against the Borrower or any other person, firm or corporation or any collateral Security held by the Mortgagee to be deemed cumulative and the availing of one remedy or another not to be deemed an election of remedy.

Borrowing Entity \_\_\_\_\_

By Guarantor: \_\_\_\_\_

Print Name: \_\_\_\_\_

Date: \_\_\_\_\_

(State of): \_\_\_\_\_

(County of) ss: \_\_\_\_\_

On the \_\_\_\_\_ (date) before me, the undersigned, a Notary Public in and for said State, personally appeared \_\_, personally known to me or proved to me on the basis of satisfactory evidence to be the Individual(s) whose name(s) is(are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies), and that by his/her/their signature(s) on the instrument, the individual(s), or the person upon behalf of which the individual(s) acted, executed the instrument.

\_\_\_\_\_  
Notary Public Signature

## Occupancy Certification

Borrower: \_\_\_\_\_

Co-Borrower(s): \_\_\_\_\_

Property Address: \_\_\_\_\_

I/We the undersigned certify that:

\_\_\_\_\_ Primary Residence – I/we will occupy the Property as my/our principal residence within Sixty (60) days after the date of closing as stated in the Mortgage or Deed of Trust I/we executed. I/we will continue to occupy the Property as my/our principal residence for at least one year after the date of occupancy unless Seller otherwise agrees in writing.

\_\_\_\_\_ Second Home – I/we will occupy the Property as a second home (vacation, etc.) while maintaining a principal residence elsewhere.

\_\_\_\_\_ Investment Property – I/we will not occupy the Property as a principal resident or second home. I/we will not occupy the Property for more than 14 days in any calendar year. The Property is an investment to be held or rented rather than for household or personal use.

**Investment Property Only** (the following must be completed on an investment property loan)

\_\_\_\_\_ I/we understand that consumer protection laws applicable to consumer loans will not apply to this loan, including the Truth in Lending Act (15 U.S.C. § 1601 et seq.), Real Estate Settlement Procedures Act (12 U.S.C. § 2601 et seq.), Gramm-Leach Bliley Act (15 U.S.C. §§ 6802-6809), Secure and Fair Enforcement Mortgage Licensing Act (12 U.S.C. § 5101 et seq.), and Homeowners Protection Act (12 U.S.C. § 4901 et seq.).

**Refinance Only** (the following must be completed on a refinance transaction)

\_\_\_\_\_ I/We the undersigned, certify that the property referenced above is NOT currently listed for sale or under contract to be listed for sale.

I/We understand that it is illegal to provide false information in an application for a mortgage loan. Mortgage fraud is punishable by up to thirty (30) years in federal prison or a fine of up to \$1,000,000, or both under the provisions of Title 18, United States Code, Sec. 1001, et seq.

I/We understand that failure to comply with the requirements in the Mortgage or Deed of Trust regarding occupancy of the property will entitle the Seller to exercise its remedies for breach of covenant under the Mortgage or Deed of Trust. Such remedies include, without limitation, requiring immediate payment in full of the remaining indebtedness under the Loan together with all other sums secured by the Mortgage or Deed of Trust, and exercise of power of sale or other applicable foreclosure remedies, to the extent permitted by the Mortgage or Deed of Trust.

\_\_\_\_\_  
Borrower Date

\_\_\_\_\_  
Co-Borrower Date

\_\_\_\_\_  
Co-Borrower Date

\_\_\_\_\_  
Co-Borrower Date

## Consent of Spouse

I, \_\_\_\_\_, spouse of \_\_\_\_\_, acknowledge that I have read the \_\_\_\_\_, dated as of \_\_\_\_\_, by \_\_\_\_\_ (the “Guaranty”), and that I know the contents of the Guaranty. I am aware that the Guaranty contains provisions guaranteeing amounts for the benefit of \_\_\_\_\_ (“Borrower”) and in support of that certain promissory note incurred by Borrower and payable to the order of \_\_\_\_\_

\_\_\_\_\_(“Seller”), as well as other obligations under the Guaranty:

I hereby expressly approve of the Guaranty in its entirety, including, but not limited to, that my spouse guarantees to Seller the full and prompt payment when due, whether at the Maturity Date or earlier, the entire amount due under the promissory note (as defined in the Guaranty).

I am aware that the legal and related matters contained in the Guaranty are complex and that I have been advised to seek independent professional guidance or counsel with respect to this Consent. I have either sought such guidance or counsel or determined after reviewing the Guaranty carefully that I will, and hereby do, waive such right.

\_\_\_\_\_  
[Name of Spouse]

Spouse’s Address [Address of Spouse]: \_\_\_\_\_

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[INSERT NOTARY ACKNOWLEDGEMENT]

## Self-Employed Business Narrative Form

This form to be completed by an individual (non-relative) of the borrower’s business, with knowledge and information of the operations and finances of the business. Typical persons submitting this form would include: Controller, Treasurer, V.P. Finance, Finance Manager, Accounting Manager or Human Resources Manager. This form can also be completed by a third- party individual with direct knowledge of the borrower’s business, such as Certified Public Accountant or an IRS Enrolled Agent. If the file does not contain or require a CPA prepared P&L, the underwriter will use this narrative to evaluate the reasonableness of expenses listed for the business.

Business Name and Legal Structure (Partnership, Corporation, Limited Liability Company, etc.): \_\_\_\_\_

Date Business Started: \_\_\_\_\_

Percentage of Business Owned: \_\_\_\_\_

Description of Business / Business Profile (Identify if Commercial or Retail client base): \_\_\_\_\_

Business Location and Associated Rent: \_\_\_\_\_

Is location in a commercial or residential dwelling? \_\_\_\_\_

Number of Employees (E) or Contractors (C): \_\_\_\_\_

Does Business Provide Sales of Goods, Services or Both? If Goods provide estimated cost of goods: \_\_\_\_\_

Materials / Trucks / Equipment / Other: \_\_\_\_\_

Business Analysis: \_\_\_\_\_

Additional Information to provide underwriting for consideration during their analysis: \_\_\_\_\_

I/We hereby certify that the information provided in this form is true, accurate and complete. I/We understand that any misrepresentation made in this document may result in the loan application being declined.

Date: \_\_\_\_\_ Title: \_\_\_\_\_

Signature: \_\_\_\_\_ Name: \_\_\_\_\_

## Borrower Contact Consent Form

To ensure we have the correct contact information for servicing your loan, please provide the following information.

By signing, I authorize my mortgage servicer, its transfers and/or assigns, to contact me regarding the servicing of my loan using the following contact information.

### Mailing address for your mortgage statements and other correspondence:

\_\_\_\_\_ Same as the subject property.

\_\_\_\_\_ Please use this mailing address instead:

Address: \_\_\_\_\_

Unit Number: \_\_\_\_\_

City: \_\_\_\_\_

State: \_\_\_\_\_

Zip Code: \_\_\_\_\_

Country: \_\_\_\_\_

#### Cell Phone Number:

I understand that by providing a cell phone number and by signing this for, I am giving the holder of my mortgage Note and its billing servicer permission to use the cell phone number to contact me regarding my loan.

	<i>Within the United States</i>	<i>If you reside outside the United States</i>
<i>Borrower:</i>	(       )       -	(       )       -
<i>Co-Borrower:</i>	(       )       -	(       )       -
	(Area Code) Phone Number	(Country Code) Phone Number

#### Email Address:

I understand that by providing an email address, I am giving the holder of my mortgage Note and its billing servicer permission to use this email to contact me regarding my loan.

Borrower: \_\_\_\_\_

Co-Borrower: \_\_\_\_\_

#### Signature (s):

Borrower: \_\_\_\_\_

Co-Borrower: \_\_\_\_\_

## MK Lending Financial Loan Exception Form

Seller Name:	_____	Borrower Last Name:	_____
Seller Email:	_____	Borrower Loan ID:	_____
Seller Contact Number:	_____	Property City:	_____
Seller NMLS ID:	_____	Property State:	_____
Loan Term:	_____	Loan Amount:	_____
Interest Only:	_____	LTV:	_____
Property Type:	_____	CLTV (if applicable):	_____
Property Value:	_____	FICO Score:	_____
Appraisal or Estimated:	_____	DTI (if applicable):	_____
Occupancy:	_____	DSCR (if applicable):	_____

Transaction Type:		Reserves (Months):	
Program:		Residual Income:	
Rate (per MK Lending Rate Sheet):		Income Documentation:	
Price (per MK Lending Rate Sheet):		Cash Out Amount (if applicable):	

***The Final Price after applying the Exception LLPA must be greater than or equal to the Minimum Price***

Exception Summary:	
Compensating Factors:	

MK Lending Decision:	<input type="checkbox"/> Approved	<input type="checkbox"/> Conditioned	<input type="checkbox"/> Declined
MK Lending Date:		MK Lending by:	
LPA Required for:		LPA Adjustment:	
LPA Required for:		LPA Adjustment:	
MK Lending Comments:			

This signed form must accompany fully closed files when delivered for underwriting review in order to have any approval identified by underwriting. Failure to deliver this form will result in possible delays in funding.

PLEASE READ THIS CAREFULLY. BY SUBMITTING THIS FORM, YOU AGREE THAT YOU HAVE READ, UNDERSTAND AND AGREE TO BE BOUND BY THE FOLLOWING TERMS AND CONDITIONS. THESE TERMS AND CONDITIONS ARE ENFORCEABLE LIKE ANY WRITTEN NEGOTIATED AGREEMENT SIGNED BY YOU. YOU AGREE THAT ANY OF YOUR AGENTS, REPRESENTATIVES, EMPLOYEES, OR ANY PERSON OR ENTITY ACTING ON YOUR BEHALF SHALL BE BOUND BY, AND SHALL ABIDE BY, THESE TERMS AND CONDITIONS. YOU AGREE THAT YOU ARE BOUND BY THESE TERMS AND CONDITIONS WHETHER YOU ARE ACTING ON YOUR OWN BEHALF OR ON BEHALF OF A THIRD PARTY.

By submitting this Loan Exception, Seller certifies that:

1. Seller has made, or is making, its own credit decision with respect to the loan to the Borrower, regardless of whether MK Lending Corp. approves or declines to approve the exception requested herein.
2. None of MK Lending Corp., its directors, officers, employees, agents, or contractors, or any of its affiliates has influenced, or will influence, Seller's credit decision with respect to the loan to the Borrower by (a) indicating whether it will approve or decline to approve the exception requested herein, (b) indicating whether it will purchase the loan if Seller originates and closes the loan, or (c) any other action or statement, and

If Seller has closed, or in the future does close, the loan to the Borrower, Seller did, or will, fund the closing of the loan with funds from a source other than MK Lending Corp. or any of its affiliates.