Oaktree Funding Corporation

Equity Advantage Loan Eligibility Guidelines

Closed-End Second

HELOC

OAKTREE
FUNDING CORP.

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1 INTRODUCTION

1.1 OVERVIEW AND UNDERWRITING PHILOSOPHY

The Oaktree Funding Corp. Eligibility Guideline (hereafter referred to as "Guidelines") outline the requirements for residential mortgage loans to be sold to Oaktree Funding Corp., LLC (hereafter referred to as "Oaktree Funding" or "Oaktree Funding Corp."). This document serves to provide guidance and consistency in the underwriting and review of the loan and its characteristics related to the borrower and property. Oaktree Funding offers programs to lenders for borrowers who may have limited access to credit. As such, Oaktree Funding evaluates many elements of the loan but primarily relies on the evaluation of the borrower's ability to repay the loan. In addition to ability-to-repay (ATR), Oaktree Funding's programs take into consideration—with the expectation of full verification and examination—the borrower's income stability and employment history, credit history, asset position, and the property being used for collateral. Each loan is assessed on the basis of its individual merits with a common sense and holistic approach to the borrower's ability and willingness to repay. To this end, Oaktree Funding's programs consider the benefit to the borrower on each loan.

1.2 UNDERWRITING CRITERIA

The Guidelines are intended to reference and supplement the Fannie Mae Seller Guide. For specific information concerning qualification requirements that are not referenced in this document, Originators should refer to the Fannie Mae Seller Guide. For specific loan characteristic and eligibility requirements related to LTV, FICO, DTI, etc., refer to the Oaktree Funding Corp. Matrix (hereafter referred to as "Matrix"). Loans sold to Oaktree Funding must meet the criteria of the current published Guidelines and Matrix as of the file submission date.

1.2.1 UNDERWRITING DOCUMENTATION

All loans must be manually underwritten. The Underwriting Approval, Income Calculation Worksheet, and the Underwriter's determination of ATR is required as part of the credit package. As an option, Oaktree may utilize an AUS Recommendation for guidance on income documentation in lieu of documentation requirements on matrix.

2 PROGRAM AND REQUIREMENTS

2.1 PROGRAM OVERVIEW

The Oaktree Funding 2nd lien program can be stand-alone and in combination with new first liens. When used in combination with a new first mortgage, each loan must be priced using the CLTV.

See Matrix for details and program requirements..

This program offers expanded credit parameters for multiple borrower profiles while utilizing standard and alternative document types:

- Full Doc 1 or 2 Yrs: Standard FNMA Documentation
- Alt Doc Bank Statements: 12, 24 Bank Statements
- Alt Doc 1099: 1 yr 1099 Statement
- Alt Doc P&L Only: 12 month P&L Statement

Loan amounts are rounded down to the nearest $100

- Example: $205,631 round down to $205,600

2.2 ELIGIBLE PRODUCTS

The following loan products are eligible for origination by Oaktree Funding. See Matrix for details.

- Fully Amortizing Fixed Rate
  - Qualifying ratios are based on PITIA payment with the principal and interest payments amortized over the loan term
  - 10, 15, 20, 30 year fixed rate.
- Balloon Notes
  - 30/15, 40/15
  - See matrix for limitations
- HELOC
  - 3 and 5 yr draw (I/O for the draw period)
  - Qual rate is fully amortizing on the repayment term at 2% above the fully indexed rate
  - Floor = 4%
  - Max rate = 18%

2.3 INELIGIBLE SENIOR LIENS

A copy of the 1st mortgage statement is required to determine eligibility. Statement date to be within 60 days of Note date. Additional 1st mortgage documentation may be required to provide sufficient data for underwriting.

- Loans in active forbearance or deferment. Deferred balances from modifications seasoned greater than 12 months may remain open. If seasoned for less than or equal to 12 months, deferred balances must be paid through closing.
- Loans with negative amortization
- Reverse mortgages
- Balloon loans that the balloon payment comes due during the amortization period of the 2nd loan

- Mortgages not reporting on credit unless a 12-month housing history can be provided. VOM's, credit supps, mortgage statements, along with 12 months cancelled checks/bank statements are acceptable to prove the 12-month pay history. In these instances the borrower must be on title on the the subject property for the most recent 6 months.
- Private Party

2.4 INTEREST ONLY SENIOR LIENS

Interest only senior liens are acceptable when qualified at a maximum DTI of 45%. Qualify I/O on fully-amortized payment on the remaining term after the I/O period. 1st lien ARMS with < 3 years fixed period remaining qualified on the fully indexed payment.

2.5 MAXIMUM COMBINED LIENS

The maximum combined 1st and 2nd lien amount is $5,000,000.

2.5.1 SUBORDINATE FINANCING

Subordinate financing behind Oaktree Funding second liens is not permitted.

2.6 SEASONING: LOAN AND DOCUMENT

Age of documents from Note Date:

- Credit Documents: 90 days
- Income Documents: 90 days
- Asset Documents: 90 days
- New AVM/Appraisal: 120 Days (With Re-certification of value: 180 days)
- Title Report: 120 days

2.7 SEASONING: PROPERTY LISTING

Properties that have been on the market within twelve months of the note date are ineligible.

2.8 SEASONING: OWNERSHIP

Six month seasoning required for all occupancies.

2.9 BORROWER CONTACT CONSENT FORM

To assist the loan servicer in contacting the borrower in a timely manner, the broker is required to obtain a valid phone number for the borrower(s). The phone number can be collected on the 1003 loan application.

2.10 STATE AND FEDERAL HIGH COST LOANS

Not eligible for Oaktree Funding loan origination.

2.10 LEGAL DOCUMENTATION

Available Fannie Mae and/or federal/state allowed security instruments, notes, riders/addenda, and special purpose documents can be utilized for loan documentation.

2.11 INTEREST CREDIT

Loans funding within the first seven (7) days of the month may reflect an interest credit to the borrower as long as the loan signed the previous month month.

2.12 ASSUMABILITY

2nd lien products are not assumable.

2.13 ESCROWS

2nd liens with escrows are ineligible.

2.14 PROPERTY HAZARD INSURANCE

2.14.1 COVERAGE REQUIREMENTS

Following Fannie Mae (FNMA) guidance, the property insurance policy must provide the claims to be settles on a replacement cost basis. The coverage amount must be at least equal to the lesser of:

- 100% of the replacement cost of the improvements as of the current property insurance effective date, or
- The unpaid principal balance of all liens, provided it equals no less than the replacement cost value of the improvements

Lender is to be added as additional loss payee. Follow FNMA guidance for additional information.

2.15 FLOOD INSURANCE

Flood insurance is required for any property located within any area designated by the Federal Emergency Management Agency (FEMA) as a Special Flood Hazard Area (SFHA). A SFHA is typically denoted as Flood Zone A or Zone V (coastal areas). Properties in Flood Zone A or V must be located in a community which participates in the FEMA program to be eligible for financing.

Flood insurance must be maintained throughout the duration of the loan.

2.15.1 FLOOD CERTIFICATE

Determination whether a subject property is in a flood zone must be established by a Flood Certificate provided by the Federal Emergency Management Agency (FEMA). Flood Cert from CoreLogic or ServiceLink is preferred. The appraisal report should also accurately reflect the flood zone.

The flood insurance requirement can be waived if:

- Subject property improvements are not in the area of Special Flood Hazard, even though part of the land is in Flood Zone A or V; or
- Borrower obtains a letter from FEMA stating that its maps have been amended so that the subject property is no longer in an area of Special Flood Hazard

2.15.2 MINIMUM FLOOD INSURANCE COVERAGE

For reference, the minimum amount of flood insurance required for most first mortgages secured by 1-unit properties and individual PUD units is the lower of:

- 100% of the replacement cost of the insurable value of the improvements;
- the maximum insurance available from the National Flood Insurance Program (NFIP), which is currently $250,000 per dwelling; or,
- the unpaid principal balance of the mortgage.

The minimum amount of flood insurance required for a PUD or condo project is the lower of:

- 100% of the insurable value of the facilities; or,
- the maximum coverage available under the appropriate National Flood Insurance Program (NFIP).

The flood policy for a PUD or condominium project must cover any common element buildings and any other common property located in a SFHA.

2.16 PREPAYMENT PENALTY

Prepayment penalty early termination fees only apply to the HELOC program.

2.17 TITLE REPORTS

The following are eligible title report types:

- ALTA
- ALTA short Form - Lender's Policy

3 PROPERTY ELIGIBILITY

3.1 APPRAISALS

3.1.1 APPRAISAL OPTIONS

Higher-Priced Mortgage Loan (HPML)

Primary & Second Homes:

- Full Appraisal (1004, 1025, 1073)
- Declining markets maximum 75% CLTV

Non-HPML

Primary/Second Home/Investment Property:

- Loan amounts ≤ $400,000 AVM with a 90% Confidence Factor and a property condition inspection from:
  - Clear Capital
  - Collateral Analytics
  - CoreLogic
  - HouseCanary
- Full Appraisal required when AVM has less than 90% Confidence Factor. (Clear Capital allowed no lower than 87% Confidence Factor)
- AVM not permitted for leasehold properties
- Loan amounts > $400,000
  - Full Appraisal (1004, 1025, 1073)
- Declining markets:
  - Primary & Second Homes - Maximum 75% CLTV
  - Investment - Maximum 70% CLTV

3.2 MINIMUM PROPERTY STANDARDS

Minimum property standards include but may not be limited to:

- 600 square feet
- Property constructed for year-round use
- Permanently affixed continuous heat source
- Maximum deferred maintenance cannot exceed $2,500
- No health or safety issues both internal or external

3.2.1 ELIGIBLE PROPERTY TYPES

- SFR with no more than 1 ADU (must be legal)
- PUD, Townhome, Rowhome, Modular
- 2-4 Units
- Condos – Warrantable
- Rural - Primary, maximum 10 acres; 80% maximum CLTV.. No agricultural crops/orchards, no hobby farms. Property must meet FNMA rural guidelines. Owner occupied and Second Home only. Commercialized outbuildings and/or commercialized equestrian/livestock facilities are not allowed.

3.2.2 INELIGIBLE PROPERTY TYPES

- Rural investment properties with more than 2 acres
- Condotels
- Non-warrantable Condos
- Manufactured/Mobile Homes
- Log Homes
- Working Farms and Hobby Farms
- Unique Properties
- Agricultural or Commercial Zoned Properties
- Co-ops
- Room and Board Facilities
- Adult Assisted Living/Care Facilities
- Mixed-Use
- Land Trust
- Deed-restricted properties
- Hawaii properties located in lava zones 1 and/or 2
- Houseboats
- Income producing properties with more than 2 acres
- Multiple dwellings on single lot (1 legal ADU acceptable on SFR)

3.2.3 ACREAGE LIMITATIONS

- Maximum 10 acres

3.3 STATE INELIGIBILITY

- HELOC: TX, TN
- Closed-End: TX Section 50(a)(6); Investment Property is permitted
- NY Subprime

3.4 TITLE VESTING AND OWNERSHIP

Ownership must be fee simple or leasehold.

Acceptable forms of vesting are:

- Individuals
- Joint tenants
- Tenants in Common
- Inter Vivos Revocable Trust
- Business Entity - Investment properties only with current vesting in:
  - Limited Liability Company (LLC)
  - Limited and General Partnerships
  - Corporations

3.4.1 INTER VIVOS REVOCABLE TRUST

Inter Vivos Revocable Trusts are allowed when the requirements outlined below are met:

- The trust must be established by one or more natural persons, solely or jointly.
- The primary beneficiary of the trust must be the individual(s) who is establishing the trust.
- Trust must be in the borrower's name.
- Trust must state that the borrower(s) have a right to revoke the Trust during their lifetimes.
- Income and assets of at least one borrower of the individuals establishing the Trust must be used to qualify for the mortgage.
- Trust must comply with all applicable state and local laws and regulations.
- Trustee must have the power to mortgage the property.
- The trust must become effective during the lifetime of the person establishing the trust.

Provide copy of Trust Agreement or Trust Certificate (where allowed by law) reviewed and approved by Title company. Title must not contain any title exceptions and offer full title protection without exception to the trust.

3.4.2 BUSINESS ENTITY

Vesting solely in the name of a business entity (LLC, partnership, or corporation) is acceptable on

investment properties. Brokers must ensure loans that are secured by properties vested in a business are solely business purpose loans for the purchase or refinance of an investment property.

Loans must be originated only in individual borrower(s) names. Entities are eligible for vesting only.

The following standards apply:

- All persons with ≥ 25% interest in the business entity ("Interested Persons") must apply for the loan and meet credit requirements
- Maximum of four (4) individual members/partners/shareholders. Entities may not be members.
- Persons who sign the note or a personal guaranty must sign an Occupancy Affidavit prior to closing
- Collateral documents must be signed as follows:

Note Signature	Required Security Instrument Signature	Personal Guaranty Required
Only Interested Persons	Both Business Entity and all Interested Persons	No
Only Business Entity	• Only Business Entity; or • Both Business Entity and all Interested Persons	Yes, for all Interested Persons
Interested Persons and Business Entity	• Only Business Entity; or • Both Business Entity and all Interested Persons	No

The following documentation must be provided:

- Formation and operating documents
  - Articles of Incorporation and bylaws
  - Certificate of Formation and Operating Agreement, or
  - Partnership agreement
- Tax Identification Number
- Certificate of Good Standing

3.5 LEASEHOLD PROPERTIES

In areas where leasehold estates are commonly accepted and documented via the Appraisal, loans secured by leasehold estates are eligible for origination. The mortgage must be secured by the property improvements and the borrower's leasehold interest in the land. The leasehold estate and any improvements must constitute real property, be subject to the mortgage lien, and be insured by the lender's title policy.

Brokers must provide documentation and leaseholds must meet all FNMA eligibility requirements (i.e. term of lease). Indian Reservation leasehold properties are ineligible. Full appraisal required.

3.6 SOLAR LIENS

Brokers are responsible for determining the ownership and any financing structure of the subject property's solar panels in order to properly underwrite the loan and maintain the lien position of the mortgage. This includes, but is not limited to, the review of power purchase leases/agreements, UCC filings, credit report, preliminary title reports and other applicable documents.

Leased Solar Panels or Panels under a Power Purchase Agreement

- Requirements:
  - Copy of the lease or power purchase agreement
  - Power Purchase Agreement Liability:
    - Payment may be excluded from DTI when payment is based on energy produced only - if not the case, payments must be included as part of the DTI calculation
  - Lease Liability
    - Lease payments must be included in the DTI calculation
  - The value of the solar panels cannot be included in the appraised value
  - The lease liability should not be included as part of the CLTV calculation
  - UCC Filing
    - Only the solar equipment may be mentioned as collateral for the UCC filing. If so, the UCC filing may remain on title
    - Title must provide a supplement that confirms the lien position of our new mortgage ahead of the UCC or financing statement filing
  - The property must maintain access to an alternate source of electric power that meets local community standards
  - The owner of the solar panels cannot be included as a loss payee on the property hazard insurance policy
  - Since the borrower does not own the solar panels, any damage resulting from installation and malfunction is the responsibility of the equipment owner

Purchased Solar Panels

- Requirements:
  - UCC Fixture Filing
    - Copy of purchase agreement
    - UCC fixture filing, credit report, and preliminary title report
    - Appraiser may consider the solar panels as part of the value of the property
    - Financing balance must be included as part of the CLTV - Max CLTV as shown on the matrix cannot be exceeded

- Monthly finance payments must be included in DTI calculation
- UCC fixture filing must be subordinated or UCC must be terminated

- Financing Statement on Title
  - Copy of purchase agreement
  - Credit report and preliminary title report
  - Appraiser may not consider the solar panels as part of the value of the property
  - Financing balance may not be included as part of the CLTV

3.7 LIMITATIONS ON FINANCED PROPERTIES

Primary and Second Homes:

- The maximum number of financed properties to any one borrower is limited to twenty (20) residential properties including the subject property.
- Commercial properties and residential > 5-units excluded from calculation.

Investment Properties:

- There is no limit on the number of financed properties.

3.8 DISASTER AREAS

Brokers are responsible for identifying geographic areas impacted by disasters and taking the appropriate steps to ensure the subject property has not been adversely affected.

Subject properties that have been adversely affected by disaster events that receive a formal disaster declaration issued by local, state or federal departments of emergency management must follow the procedures listed below. The following guidelines apply to properties located in FEMA declared disaster areas, as identified on the FEMA website at http://www.fema.gov/disasters.

In addition, when there is knowledge of an adverse event occurring near and around the subject property location, such as earthquakes, hurricanes, floods, landslides, tornadoes, wildfires, volcanic eruptions, civil unrest or terrorist attacks, additional due diligence should be used to determine if the disaster guidelines should be followed.
Guidelines for disaster areas should be followed for 90 days from the disaster period end date or the date of the event, whichever is later.

3.9 DECLINING VALUES

Properties in which the appraiser is reporting a declining trend in values for the subject's market area are limited to a maximum 75% CLTV on primary and 2nd homes, 70% CLTV on investment properties.

3.10 CONDOMINIUMS

Fannie Mae eligible condominium projects allowed.

FNMA warrantable projects are permitted. Follow the review process required by Fannie Mae for Limited Review.

Site Condos meeting the Fannie definition are eligible for single-family dwelling LTV/CLTV.

4 TRANSACTION TYPES

4.1 ELIGIBLE TRANSACTIONS

- Purchase
- Cash-out

4.1.1 CASH OUT SEASONING

Properties owned for 6 months or greater, no restrictions. Properties owned less than 6 months ineligible.

4.1.2 STAND-ALONE CASH-OUT

A letter of explanation regarding the use of loan funds must be provided for cash-out refinance transactions.

4.1.3 PRIOR CASH-OUT REFINANCE SEASONING

Any previous cash-out refinance transaction, either the 1st or 2nd lien, within the prior six (6) months limits the maximum CLTV to 80%.

4.1.4 CONCURRENT (PIGGYBACK) PURCHASE

Concurrent (Piggyback) purchases are permitted.

Requirements:

- First and second liens are priced using the total CLTV
- First lien must meet first lien matrix and guides
- Appraisal from the 1st lien will be used for qualifying purposes
- Approval letter from 1st mortgage showing terms, all conditions, and final CD from 1st mortgage transaction will be required.

4.2 NON-ARM'S LENGTH

Non-arm's length purchase transactions are ineligible.

5 BORROWER ELIGIBILITY AND REQUIREMENTS

Refer to Fannie Mae guidelines for all definitions of eligibility status.

5.1 FRAUD REPORT AND BACKGROUND CHECK

All loans must include a third-party fraud detection report for all borrowers. Report findings must cover standard areas of quality control including, but not limited to: borrower validation, social security number verification, criminal records, and property information (subject property and other real estate owned). All high-level alerts on the report must be addressed.

5.2 NON-OCCUPANT CO-BORROWERS

Non-Occupant co-borrowers are ineligible.

5.3 FIRST TIME HOME BUYER (FTHB)

Oaktree Funding defines a First Time Home Buyer as a borrower who has no ownership interest (sole or joint) in a residential property during the three-year period preceding the date of the purchase of the subject property.

For concurrent (Piggyback) loans, a First Time Home Buyer's housing history defaults to the 1st lien requirements.

5.4 RESIDENCY

5.4.1 U.S. CITIZEN

Eligible without guideline restrictions.

See Oaktree full Loan Eligibility Guidelines for specifics on:

- Permanent Resident Alien

5.4.2 INELIGIBLE BORROWERS

The following borrowers are ineligible:

- Irrevocable Trust
- Land Trust
- Individual possessing diplomatic immunity or otherwise excluded from US jurisdiction

- Any material parties (company or individual) to transaction listed on HUD's Limited Denial of Participation (LDP) list, the federal General Services Administrative (GSA) Excluded Party list or any other exclusionary list
- Foreign Nationals
- Borrowers without a valid Social Security Number
- Borrowers party to a lawsuit
- Non-Permanent Residents
- Borrowers not obligated on the 1st mortgage note. At least one borrower from the subject property 1st mortgage note must be a borrower on the new second lien

6 CREDIT

6.1 CREDIT REPORT

A credit report is required for every borrower. All applicants must have a valid SSI number. Fannie Mae guidelines should be utilized for processing and documenting all required credit reports and determining borrower's credit eligibility for Oaktree Funding loan origination.

Borrower explanations are to be provided for any Disputed Tradelines with derogatory information reported in the last two years.

For borrowers who have a security freeze on their credit, the security freeze must be removed and credit re-pulled.

6.2 LOAN INTEGRITY AND FRAUD CHECK

Data integrity is critical to quality loan file delivery and mitigation of fraud risk. All loans must be submitted to an automated fraud and data check tool (i.e. FraudGuard, DataVerify, etc.). A copy of the findings report must be provided in the loan file along with any documentation resolving any deficiencies or red flags noted.

6.3 CREDIT INQUIRIES

Oaktree Funding will inform borrowers that they are obligated to notify the lender of any new extension of credit, whether unsecured or secured, that takes place during the underwriting process and up to the consummation of the loan.

For all inquiries within the most recent 90 days of the credit report date, a signed letter of explanation from the borrower or creditor is required to determine whether additional credit was granted as a result of the borrower's request. If new credit was extended, borrower must provide documentation on the current balance and payment; based on the verification of all new debt/liabilities, the borrower should be qualified with the additional monthly payment. If no credit was extended, borrower must state the purpose of the inquiry.

6.4 CREDIT REPORT UPDATE

The Broker should confirm there are no new borrower debt obligations. A gap credit report or soft-pull is required if the note date is greater than 30 days after the date of the credit report relied upon for underwriting. The gap credit report or soft-pull is to be dated within 15 days of the note date.

When a gap report or soft-pull is required, it becomes part of the Mortgage File and all payments/ balances and DTI are to be updated.

6.5 HOUSING HISTORY

Borrowers must demonstrate 0x30 housing history in the last 12 months on their primary residence and any other properties owned by the borrower. A 12-month housing history must be provided for the 1st lien mortgage on all Oaktree 2nd lien transaction regardless if the borrower is obligated on that mortgage.

A VOM along with proof of monthly housing payments made over the last 12 months is required when the borrower is making mortgage payments to a non-institutional lender or private party not appearing on credit. Canceled checks, Bank transaction history reports and Lender Mortgage History reports are acceptable proof of payment history over the last 12 months. All mortgages and rental payments should be current at the time of closing. If the credit report or VOR/VOM reflects a past-due status, updated documentation is required to verify that the account is current. Properties owned free and clear are considered 0x30 for grading purposes.

6.6 CONSUMER CREDIT

6.6.1 CONSUMER CREDIT HISTORY

Applicants with current credit delinquencies are ineligible.

6.6.2 CONSUMER CREDIT CHARGE-OFFS AND COLLECTIONS

Open charge-offs or collections ≤ $1,000 per occurrence are acceptable. Open medical collections ≤ $1,000 per occurrence are acceptable. Collection accounts may be paid off prior to closing to qualify.

6.6.3 CONSUMER CREDIT COUNSELING SERVICES

Borrowers enrolled in credit counseling are ineligible.

6.6.4 JUDGMENT OR LIENS

All judgments, garnishments, and all outstanding liens must be paid off prior to or at loan closing.

6.6.5 INCOME TAX LIENS

All income tax liens (federal, state, local) must be paid off prior to or at loan closing.

6.7 CREDIT EVENT SEASONING

No foreclosure actions (NOI, NOD), short-sale, deed in lieu, bankruptcies in the last 48 months. No multiple credit/housing events (FC, BK, SS/DIL) in the last seven (7) years.

6.8 CREDIT SCORE

The representative credit score is to be used for the credit decision. A valid score requires one (1) score from at least two (2) of the following agencies: Experian (FICO), Trans Union (Empirica), and Equifax (Beacon). Only scores from these agencies are acceptable.

A borrower's representative credit score is the lower of the two (2) scores or the middle of three (3) scores.

For loans with multiple borrowers, the occupying borrower with the highest income is the primary borrower and their representative credit score is to be used. When borrowers are self-employed and have equal ownership of a business, the lowest representative score of all borrowers is to be used.

Minimum credit score for co-borrowers is 500.

6.9 STANDARD TRADELINE REQUIREMENTS

The primary wage-earner must meet either of the minimum tradeline requirements listed below:

- At least three (3) tradelines reporting for a minimum of twelve (12) months with activity in the last 12 months; or,
- At least two (2) tradelines reporting for a minimum of twenty-four (24) months with activity in the last 12 months
- On a primary residence only, borrowers who do not have the minimum tradelines are acceptable with a current mortgage history on their credit report reporting 0x30x12 (private party mortgages not permitted)

Valid tradelines have the below characteristics:

- The credit line must be reflected on the borrower's credit report
- The account must have activity in the last 12 months but may be open or closed
- Student loans may be counted as tradelines as long as they are in repayment and are not deferred
- An acceptable 12 or 24-month housing history not reporting on credit may also be used as a

tradeline (VOR from professional management company or VOR/Lease and cancelled checks from a private party landlord).

The following are not acceptable to be counted as valid tradelines:

- Liabilities in deferment status
- Accounts discharged through bankruptcy
- Authorized user accounts
- Charge-offs
- Collection accounts
- Foreclosures
- Deed-in-lieu foreclosures
- Short sales
- Pre-foreclosure sales

6.10 OBLIGATIONS / LIABILITIES NOT APPEARING ON CREDIT REPORT

6.10.1 HOUSING AND MORTGAGE RELATED OBLIGATIONS

All properties owned by the borrower must be fully documented. These obligations must be verified using reasonably reliable records such as taxing authority or local government records, homeowner's association billing statements, information obtained from a valid and legally executed contract.

The monthly mortgage payment (PITIA) used for qualification consists of the following:

- Principal and Interest
- Hazard and flood and insurance premiums
- Real Estate Taxes
- Special Assessments
- Association Dues
- Any subordinate financing payments.
- Premiums and similar charges that are required by the creditor (i.e., mortgage insurance)

6.10.2 CURRENT DEBT, CHILD SUPPORT, ALIMONY, OR MAINTENANCE OBLIGATIONS

Oaktree may use a credit report to verify a borrower's current debt obligations, unless Oaktree has reason to know that the information on the report is inaccurate or disputed.

Monthly alimony, child support or separate maintenance fees should be current at both time of application and closing, and must be included in the borrower's DTI ratio. The file should contain supporting documentation as evidence of the obligation, such as a final divorce decree, property

settlement agreement, signed legal separation agreement, or court order. If payments are past due, the borrower is ineligible,

7 ASSETS

7.1 DOCUMENT OPTIONS

For purchase files, documentation of sufficient funds from acceptable sources for down payment, closing costs, prepaid items, debt payoff are required. FNMA guidelines used to verify funds. All documentation to follow AUS requirements when applicable. 1st mortgage approval including all terms and conditions will be required.

8 INCOME DOCUMENTATION

8.1 INCOME ANALYSIS

For stand-alone loans, the income documentation and calculation per FNMA guides with 2 years verification unless otherwise noted by the program document requirements.

8.1.1 INCOME WORKSHEET

Loans using bank statements must include income calculations.

Income analysis for borrowers with multiple businesses must show income/(loss) details separately, not in aggregate.

8.1.2 EMPLOYMENT AND INCOME VERIFICATION

The most recent two (2) years employment is required to be documented and verified for all income/ documentation types unless otherwise noted by specific program requirements.

A two-year employment history is required for the income to be considered stable and used for qualifying. An employment history less than two (2) years may be used if the borrower recently graduated with a degree/certificate in the same line of work.

8.2 DEBT TO INCOME RATIO / DTI

Standard Debt-to-Income ("DTI") maximums as per Matrix. See Section 2.4 for limits to DTI on loans with Interest Only First Liens.

DTI is calculated and reviewed for adherence to Fannie Mae guidelines and inclusion of all income and liability expenses.

8.3 DOCUMENTATION OPTIONS

Full income documentation for wage earners and self-employed borrowers. Bank statement documentation, P&L only, and 1099 for self-employed borrowers.

8.4 FULL INCOME DOCUMENTATION

8.4.1 FULL DOC

Self-employed borrowers:

- 1 or 2 years tax returns (business and personal) including all schedules
- Current YTD P&L (borrower prepared ok), or 3 months bank statements
- Qualifying income based on tax returns. P&L or bank statement to support tax return income
- Tax transcripts

Wage/Salaried borrowers:

- W-2's for most recent 1 or 2-years and current paystubs reflecting 30-days earnings
- W-2 transcripts

Other Requirements:

- A verbal VOE from each employer 10-days of the note date for wage and salaried employees.
- For self-employed verify existence of business within 30 days of the note date with one of the following:
  - Letter from business tax professional.
  - On-line verification from regulatory agency or licensing bureau.
  - Certification verifying business existence through direct contact or internet search.
- Borrowers may qualify with a minimum of one year's self-employment with at least two years of documented previous employment in the same line of work. Subject to the following restrictions:
  - 85% max CLTV
  - 700+ FICO
  - No FTHB
  - Minimum 6 months reserves
  - Full documentation tax returns must show 12 months of self-employment income on the most recent filed returns.

Other Miscellaneous Income

- Treatment of miscellaneous income sources follow FNMA guidelines.

8.5 ALTERNATIVE INCOME DOCUMENTATION: 12 OR 24 MONTHS BANK STATEMENTS

8.5.1 ALT DOC: 12 OR 24 MONTHS BANK STATEMENTS

For self-employed borrowers. Bank statements (personal and/or business) may be used as an alternative to tax returns to document a self-employed borrower's income.

Borrowers using the bank statement program must be self-employed for at least 2 years (25% or greater ownership) to qualify.

Borrowers may qualify with a minimum of one year's self-employment with at least two years of documented previous employment in the same line of work. Subject to the following restrictions:

- 85% max CLTV
- 700+ FICO
- No FTHB
- Minimum 6 months reserves
- Deposit history must support 12 months of business operations

No 4506-C/tax transcripts/Tax Returns (4506-C required for salaried co-borrowers)

8.5.2 ALT-DOC: BANK STATEMENT RESTRICTIONS

Excessive NSFs (greater than 12 every 12 months) on the bank statements may cause the loan to be ineligible. Business bank statements must be operating account(s) reflecting normal business expenses.

8.5.3 ALT-DOC: BANK STATEMENT DOCUMENTATION

Borrower must document eligible continuous self-employment history with business license or statement from corporate accountant/CPA confirming the same.

- Other documentation from third parties may be acceptable on a case by case basis (e.g., letter from an attorney).
- Acceptable business license must be verified by third party (e.g., government entity, borrower's business attorney). Borrowers whose self-employment cannot be independently verified are not eligible.
- In instances where a license is not required (e.g., choreographer), a letter from a CPA confirming employment may be accepted in lieu of a license.
- Oaktree must be able to determine the ownership percentage for each borrower from the documentation provided.

1099 Contractor:

- A borrower who is a "1099 contractor" may be considered self-employed for this program with

confirmation from a CPA that the borrower is a 1099 contractor and files Schedule C or Schedule E with the IRS (personal tax returns). Borrower cannot have ownership of 1099 Payor's business.

8.5.4 ALT-DOC: BANK STATEMENT INCOME ANALYSIS

Bank statements are used to calculate and show a consistency of income for the self-employed borrower.

When using 12 or 24 months of bank statements, no P&L is required. Oaktree Business Narrative required on all bank statement loans.

Personal Bank Statements:

- If the borrower maintains separate bank accounts for personal and business, only personal bank statements are used for qualifying.
- The borrower is to provide the most recent 24 or 12 months consecutive personal bank statements and two (2) months business bank statements (to support the borrower does maintain separate accounts, and to show business cash flows in order to utilize 100% of business-related deposits in personal account).
- The deposits are analyzed and averaged to determine monthly income.
  - No expense factor
  - Deposits to a personal account from sources other than self-employment are not included.
- When the borrower is an inter vivos trust, personal bank statements in the name of the trust are allowed for qualification.
- Business bank statement guidelines will be used when a personal banking account is provided without a corresponding separate business bank account.
- Personal and business bank accounts cannot be used to calculate income unless the borrower can show that each account is used for separate businesses or business streams of income.

Business Bank Statements Only:

- If only using business bank statements, borrower is to provide the most recent 24 or 12 months consecutive business bank statements.
- The bank statements are analyzed per Oaktree full loan eligibility guidelines
- **Standard expense factor applies; 50% expense factor.**
- If the type of business operates more efficiently or typically has a materially different expense factor (higher or lower than 50%), then the expense factor per either a CPA/CTEC/EA letter or P&L may be applied. PTIN acceptable if documented as employed by a 3rd party tax preparation service.
- The underwriter may use an expense factor that is higher than the standard 50% when the analysis of the bank statements reflect higher expenses.
- **The minimum expense factor with CPA letter or P&L is 20%.**

- When a CPA or tax preparer produced statement is provided, apply the stated expense factor to calculate the qualifying income. Provide either of the following:
  - A CPA/CTEC/EA produced written statement/letter specifying the actual expense ratio of the business (including cost of goods sold and all other business expenses) based on the most recent year's filed tax returns. Such statement shall not include unacceptable disclaimer or exculpatory language regarding its preparation or,
  - A CPA/CTEC/EA produced Profit and Loss (P&L) statement that has been reviewed by the CPA/CTEC/EA, the CPA/CTEC/EA states they have reviewed the P&L in writing, and the P&L and accompanying statement do not have unacceptable disclaimer or exculpatory language regarding its preparation.
- The expense factor per the P&L or CPA/CTEC/EA produced statement must be reasonable. The annual deposits on the bank statements must be at least 75% of the gross receipts per the P&L. Expense history must reasonably support the expense percentage int he CPA letter and P&L.

The bank statements should show a trend of ending balances that are stable over the 24 or 12 month period.

- Large deposits inconsistent with history must be documented as business income.
- Net deposits must not reflect any other income sources already taken into consideration (i.e. deduct SS payments, W-2 wage earnings, etc., that have already been used for income calculation).

8.5.5 DECLINING INCOME

Declining income sources should be closely reviewed to determine if the income may be used for qualifying purposes. Income showing a consistent decline over the prior year should not be considered stable or usable income for qualification purposes if the decline exceeds 20%. Exceptions will be reviewed on a case by case basis.

A signed, written explanation for the decline should be obtained from the borrower and/or employer. In instances where there is sufficient information to support the use of the income, the most recent lower income over the prior 2-year period must be used and may not be averaged.

8.6 ALTERNATIVE INCOME DOCUMENTATION: 1099

8.6.1 ALT-DOC: 1099

This is designed for borrowers who are paid on a 1099 basis and would benefit from alternative loan qualification methods. Most recent 1 year IRS form 1099 may be used as an alternative to tax returns to document the borrower's income.

8.6.2 ALT-DOC: 1099 RESTRICTIONS

Borrower cannot have any ownership interest in the company(s) providing 1099 income

8.6.3 ALT-DOC: 1099 REQUIREMENTS AND DOCUMENTATION

The following is required:

- Most recent 1 year IRS form 1099(s) from employer(s). Borrower must have 2-year history of 1099 employment.
- Two most recent paystubs or bank statements required to support continuance of income for each 1099 source utilized for qualification (e.g. if borrower provided 1099 forms from five (5) separate sources, then a separate paystub/bank statement deposit must be provided from each of the five (5) 1099 sources to support current receipt). One bank account may be used if continuance of income from all 1099 sources are sourced in that single bank account.
- Third party documentation (CPA/CTEC/EA) supporting a 2-year employment history when 1-year 1099 is used
- Tax transcripts are required for each 1099 provided
- 1099 income minus 10% expense factor / 12 months = qualifying income
- 1099 income that is not supported by documentation of current receipt cannot be used for qualification

8.7 ALTERNATIVE INCOME DOCUMENTATION: P&L ONLY

8.7.1 ALT-DOC: P&L ONLY

This program is designed for borrowers who are self-employed and would benefit from alternative loan qualification methods. A CPA/CTEC/EA completed and signed P&L may be used as an alternative to tax returns to document a self-employed borrower's income. No other income documentation type other than Asset Depletion can be combined with the P&L for the self-employed borrower.

At least one of the borrowers must be self-employed for at least 2 years (25% or greater ownership) to qualify for this program.

No 4506-C/Tax Transcripts/Tax Returns

8.7.2 ALT-DOC: P&L ONLY RESTRICTIONS

The minimum expense factor with a P&L is 20% for service business, 40% for product business.

Service Business: Offers services such as Accounting, Consulting, Counseling, Financial Planning, Insurance, Therapy, etc.

Product Business: Sells goods such as Contracting or Construction, Food Services, Manufacturing, Restaurant, Retail.

Oaktree Business Narrative Required

8.7.3 ALT-DOC: P&L ONLY REQUIREMENTS AND DOCUMENTATION

The following is required:

- Business license for the past 2 years if applicable
- A signed letter from the CPA, CTEC (CA Tax Education Council) or EA (Enrolled Agent) on their business letterhead showing address, phone numbers, and license number with the following information:
  - CPA/CTEC/EA confirms they have prepared the most recent year's business tax return filing
  - The business name, borrower's name, self-employment history, and percentage of business ownership by the borrower
- CPA/CTEC/EA signed/prepared Profit and Loss Statement(s) covering the most recent 12-month period
  - PTIN's are not acceptable to sign/prepare P&L Statements
- Income from co-borrowers who are W2 wage earners is to be documented with the most recent W2 and paystub.

8.8 ASSET DEPLETION

Asset depletion can be used to augment qualifying income of Full Income and Bank Statement documentation files. It cannot be used as a stand-alone income documentation type.

Allowable and documented assets are divided by 60 months to determine amount added to qualifying income.

- Document each asset with statements covering six (6) months. Oaktree will use the lowest balance over the last 6 months as seasoned assets.

The following assets are considered Qualified Assets and can be utilized to calculate income:

- 100% of checking, savings, and money market accounts
- 80% of the remaining value of stocks & bonds
- 70% of retirement assets
- Personal funds in the borrower's name only. A non-borrowing spousal account may be used with a 100% access letter. (business funds and joint accounts with non-spousal individuals not on the loan are not eligible).
- Revocable Trust accounts will be reviewed on a case-by-case basis. In these instances, the borrower must be the sole beneficiary and sole trustee.

9 SENIOR LIEN DOCUMENTATION REQUIREMENTS

Stand-Alone:

- Current (within 60 days) first mortgage statement showing:
  - Current principal balance
  - Fully amortized
  - Term
- HOA statement (If applicable)
- HOI, flood insurance (if applicable), flood cert.

Concurrent (Piggyback) 2nd:

- Follow 1st lien income requirements
- 1st mortgage approval reflecting 2nd
- DU Approve/Eligible or Approve Ineligible, or LP Accept if applicable
- Purchase agreement (if applicable)
- HOA statement (if applicable)
- HOI, flood insurance (if applicable), flood cert.
- Closing instructions reflecting 2nd
- Full appraisal from 1st mortgage and any additional collateral evaluation