



# EAGLE Closed End Second Lien Program Underwriting Guidelines September 25, 2023

Version 1.2

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## 1.1 Loan Purchase Eligibility Policy

Closed End Second Lien Program Underwriting Guidelines establish the criteria under which a residential mortgage loan will be eligible by N2 Funding.

N2 Funding will evaluate many aspects of the loan, 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.

N2 Funding 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 4506-C, etc.). Loans containing fraudulent documentation or information will immediately be rejected 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

N2 Funding 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. N2 Funding 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 N2 Funding 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.

N2 Funding will not fund or 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, N2 Funding will only fund or purchase loans that the applicant appears able to afford based on application of prudent underwriting standards. The Close End Second Lien Program must be ATR compliant and must adhere to the standards set forth in the CFPB's Reg Z, Section 1026.43(c).

## SUMMARY AND FEATURES

### 2.1 Fannie Mae Seller Guide, Freddie Mac Seller Guide

The Closed End Second Lien Program is intended to reference and supplement Fannie Mae's Seller Guide or Freddie Mac's Seller Guide

- Loans must be underwritten entirely to either Fannie Mae Guides or Freddie Mac Guides; **commingling of guidelines for qualification is not permitted**
- Originators should refer to the Fannie Mae or Freddie Mac Seller Guide for specific information concerning qualification requirements that are not specifically referenced herein
- To the extent there is a difference in standards between CES program guidelines and the Fannie Mae Guides/Freddie Mac guides; Originators may rely on CES program guidelines

Product	Qualifying Rate	Term	Amort. Term
10 Year Fixed	Note Rate	120	120
15 Year Fixed	Note Rate	180	180
20 Year Fixed	Note Rate	240	240
30 Year Fixed	Note Rate	360	360

### 3.1 Title Policy

- For loan amounts  $\geq$ \$250,000: ALTA Standard Coverage Policy insuring the second lien amount
- For loan amounts  $<$ \$250,000: ALTA Residential Limited Coverage Junior Loan Policy or ALTA Standard Coverage Policy insuring the second lien amount
- For loan amounts  $\leq$ \$125,000: N2 Funding will accept an Owner's & Encumbrance Report verifying and validating the senior lien or an ALTA Standard Coverage Policy or an ALTA Residential Limited Coverage Junior Loan Policy
- For concurrent (piggyback transactions), title policy from the 1<sup>st</sup> lien transaction can be utilized, must include title insurance/CPL/wire instructions

### 3.2 Geography

- Ineligible States: Hawaii, Indiana, New York, Tennessee (primary & 2<sup>nd</sup> home), and Texas
- The following US commonwealth and territories are not eligible
  - Puerto Rico, Guam, American Samoa, Northern Marina Islands and the U.S. Virgin Islands

### 3.3 Underwriting/Income/Liabilities/Assets

- Document employment, income, assets and liabilities per Fannie Mae Seller Guidelines or Freddie Mac Guidelines
  - Verbal Verification of Employment (VVOE) must be obtained within ten (10) business days prior to the Note Date and within one hundred twenty (120) calendar days prior to the Note Date for self-employment income
  - Post closing VVOE will not be accepted
- Transaction can be a stand-alone second mortgage or be concurrent with a 1<sup>st</sup> mortgage loan
  - For piggyback 2<sup>nd</sup> lien, utilize the same income, assets and liabilities (same underwriting methodology) as the 1<sup>st</sup> lien

### 3.4 Credit Report

- 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
- Representative Credit Score of the Primary Wage Earner is used to qualify. In cases where borrowers earn the same amount, use the lower of the representative credit score to qualify
- Primary Wage Earner must have a valid score from at least two (2) of the following three (3) agencies: Experian, Trans Union and Equifax

### 3.5 Tradelines

- Document per Fannie Mae Seller Guidelines or Freddie Mac Seller Guidelines

### 3.6 Derogatory Housing History

- **Minimum Derogatory Housing Event seasoning period of four (4) years**
  - Derogatory Housing Events:
    - N2 Funding defines Housing Events as Foreclosures, Short Sale, Deed in Lieu, Default Modification, Notice of Default, Lis Pendens or 120+ Days Delinquent
    - Bankruptcies are considered Housing Events, inclusive of Chapter 7, 11, and 13
    - Defaulted 1st and 2nd 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
    - Default Modification look back commences at inception (when loan was permanently modified)
    - Extenuating circumstance seasoning is not permitted
- **Borrowers with multiple Derogatory Housing Events within the last seven (7) years are not eligible**
- **Housing History (0x30x12)**
  - Twelve (12) month mortgage/housing history includes all occupancy types: Primary, Second Home and Investment Properties

### 3.7 Minimum Loan Amount (Closed End 2<sup>nd</sup> Lien)

- \$70k Minimum Loan Amount

### 3.8 Maximum Loan Amount (Closed End 2<sup>nd</sup> Lien)

- \$500k Maximum Loan Amount

### 3.9 Maximum Combined Loan Amount (1<sup>st</sup> & 2<sup>nd</sup> Lien)

- \$2.5mm Maximum Loan Amount (1<sup>st</sup> & 2<sup>nd</sup> Lien combined)

### 3.10 Subject Property Financing Restrictions

- Max two (2) consumer lending products on a single property inclusive of subject second lien
- 1<sup>st</sup> Lien cannot be a HELOC
- New subject lien may pay off existing junior lien on property

### 3.11 1<sup>st</sup> Mortgage Requirements/Documentation

- \$2.5mm Maximum Loan Amount (1<sup>st</sup> & 2<sup>nd</sup> Lien combined)
- Must document 1<sup>st</sup> mortgage with a copy of 1<sup>st</sup> mortgage note or billing statement
- Ineligible 1st Mortgage Products & Terms
  - Fannie Mae Homestyle, HFA, Refi Now, HomeReady, Affordable Refi and Down Payment Assistance programs
  - Loans with a Negative Amortization feature
  - Outstanding term >30 years
  - Loans in active forbearance or deferment
  - Reverse Mortgages
  - Private 1<sup>st</sup> liens
  - Balloon loans with a maturity date before the maturity date of the 2<sup>nd</sup> subject lien
  - First Lien HELOC
  - Land Contracts
  - CEMA transactions
  - Cross Collateralized loans

### 3.12 Concurrent Requirements (“Piggybacks”)

- Approval letter/final approval from 1<sup>st</sup> mortgage showing all conditions have been satisfied
- Documentation requirements from 1<sup>st</sup> mortgage investor
- Final Closing Disclosure from 1<sup>st</sup> mortgage transaction
- Use of Appraisal from the 1<sup>st</sup> lien is acceptable
- Title policy from 1st lien transaction can be used and must include title insurance/CPL/wire instructions
- HOA statement, HOI, flood insurance from the 1<sup>st</sup> lien transaction (if applicable)

### 3.13 Cash Out Amount (Closed End 2<sup>nd</sup> Lien)

- Unlimited

### 3.14 Mortgage Insurance

- Not required

### 3.15 Homeowners Insurance

- Existing coverage amount must be equal to the lesser of the following:
  - 100% of the insurable value of the improvements, as established by insurer
  - Unpaid principal balance (“UPB”) of all existing liens including the subject 2<sup>nd</sup> lien

### 3.16 Cash Out CLTV

- Use the lesser of the appraised value and the purchase price for properties owned less than 12 months
- Properties that have been on the market within six months of the application date are ineligible

### 3.17 Debt to Income (“DTI”)

- Max DTI permitted
  - 50% max DTI for Primary Residence
  - 45% max DTI for 2<sup>nd</sup> Homes/Investor
- DTI should be recalculated based on any new debt
- If 1<sup>st</sup> lien is an Interest Only loan, fully amortizing payment will be used to qualify
- If the underlying 1<sup>st</sup> lien is an Adjustable Rate Mortgage (“ARM”), the higher of the fully indexed rate or note rate should be used to qualify

### 3.18 Reserves

- No reserves required

### 3.19 Non-Occupant Co-Borrower

- Non-Occupant Co-Borrowers are credit applicants that do not occupy the subject property
- Not Eligible if a Non-Occupant Co-Borrower is on either the 1<sup>st</sup> or 2<sup>nd</sup> lien

### 3.20 Eligible Borrowers

- Eligibility per Fannie Mae Seller Guidelines or Freddie Mac Seller Guidelines

### 3.21 Ineligible Borrowers

- N2 Funding will not close loans that have been made to any of the following Borrower types:
  - Foreign Nationals
  - ITINs
  - Irrevocable or Blind Trusts
  - Land Trusts
  - Borrowers with diplomatic immunity



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- DACA & 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
  - Non-Occupant Co-Borrowers

### 3.22 Ineligible Transactions (1<sup>st</sup> Lien)

- Construction Loans
- Temporary Buydowns
- Builder Bailout & Model leasebacks
- Conversion Loans
- Rent Credits
- Non-Arm's Length
- Lease Option
- Subject Loan being used as Bridge financing
- Cross Collateralized
- Renovation Loans

### 3.23 Eligible Properties

- Eligibility per Fannie Mae Seller Guidelines or Freddie Mac Seller Guidelines

### 3.24 Ineligible Properties

- Manufactured Homes
- 2-4 Units
- Log Homes
- Condotels
- Cooperatives
- Non-Warrantable Condos
- Properties listed for sale within the last 6 (six) months
- Properties with >20 acres
- Condominium projects with registration services or restrictions on owner's ability to occupy
- Unique Properties
- Mixed Use Properties
- Builder Model Leaseback
- Boarding Houses/Group Homes
- Fractional Ownership/Timeshares
- Assisted Living/Continuing Care Facilities
- Mandatory Country Club Memberships

- Zoning Violations
- Properties under Construction
- Working Farms
- C5 or C6 Property Condition Grades
- Live/Work Condos
- Geodesic Domes
- Houseboats
- Homes on Native American Land (Reservations)
- Properties used for the cultivation, distribution, manufacture, or sale of Marijuana
- Theme Park Resort Properties

#### 3.24.1 Rural Properties

- Rural properties not permitted
- Rural will be defined per the underlying appraisal/valuation product

### 3.25 Valuation

- **>=\$250,000 Loan Balance**
  - One (1) Full Appraisal required
  - Loans with HPML designation require a Full Appraisal (See Section 5.3)
- **<\$250,000 Loan Balance**
  - Full Appraisal or Exterior Appraisal (2055)
- **<=\$125,000 Loan Balance**
  - An AVM may be permitted under the following circumstances
    - Must be submitted with a property condition report detailing exterior photos. Property condition report to show the underlying property to be in adequate condition
    - AVM must be dated within 60 days of the Note Date
    - Subject loan has a CTLV <=75%
    - Subject property is not a condominium
    - AVM must have an acceptable confidence score
    - AVM must be provided by an N2 Funding approved provider

Approved AVM Vendors	FSD Score, 90%
Clear Capital	<= .13
Collateral Analytics	<= .10
House Canary	<=.10
Red Bell Real Estate, LLC	<=.10
Veros	<=.10

- Appraisal Requirements
  - Appraisal must comply with and conform to USPAP and the Appraisal Independence Requirements
  - 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
- Assigned appraisals are acceptable, unless ordered by Borrower
- Appraisals are good for one hundred twenty (120) days. Any appraisal seasoned greater than one hundred twenty (120) days will require a recertification of value completed by the original licensed appraiser. A recertification of value will be permitted up to one hundred eight (180) days
- Legal non-conforming zoned properties must indicate that the subject property can be rebuilt if it is severely damaged or destroyed
- Appraisals with condition or quality ratings of C5 or C6 will not be eligible
- Form 1007 Schedule of Rents is required for all Non-Owner-Occupied loans on Single Family residences
- For concurrent (piggyback) transactions, utilization of the Appraisal from the 1st lien is acceptable

### 3.26 Third Party Valuation Review

- Loan files do not require a secondary valuation product

### 3.27 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 ending date or the date the adverse event occurred, whichever is greater

#### 3.27.1 Appraisal Completed Prior to Disaster

- Interior and exterior inspection of the subject property is required
- 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 eligible

#### 3.27.2 Appraised After Disaster Incident

- 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 eligible

#### 3.27.3 Disaster Incident Occurs After Closing, Prior to Funding

- A Post Disaster Inspection (PDI) Report from Clear Capital or Damage Assessment Report (DAR) from Pro Teck will need to be provided to N2 Funding
- 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 eligible

#### 3.27.4 Verbal Verification of Employment

- N2 Funding 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

#### 4.1 Ability to 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)

#### 4.2 High Cost

- Agency, Federal, State, and Local High-Cost Loans are not permitted

#### 4.3 Higher-Priced Mortgage Loan ("HPML")

- HPML defined as secondary/subordinate financing with an APR 3.50%  $\geq$  APOR
- HPMLs are permitted with the following requirements
  - Loan complies with HPML appraisal rules in Reg. Z
    - Loan must have Full Appraisal
    - Second Appraisal required under the following circumstances
      - Greater than 10% increase in sales price if the seller acquired the property in the past 90 days
      - Greater than 20% increase in sales price if the seller acquired the property in the past 91-180 days

#### 4.4 Fraud

- N2 Funding has a zero-tolerance policy as it relates to fraud. A fraud prevention pull is required from Data Verify, Core Logic, SAS or a similar engine

#### 4.5 Max Financed Properties

- Twenty (20)

#### 4.6 Prepayment Penalties

- Prepayment penalties will not be permitted under N2 Funding's Closed End Second Lien Program

#### 4.7 Escrows

- Not required

#### 4.8 Escrow Holdbacks

- Escrow holdbacks are not permitted

#### 4.9 Solar Leases

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

#### 4.10 MERS

- The loan must be properly registered on the MERS® System prior to purchase

#### 4.11 Uniform Residential Loan Application (URLA)

- All loan applications must be submitted using the revised URLA

#### 4.12 E-Signatures

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