MEGA CAPITAL FUNDING, INC.

FNMA HIGH LTV REFINANCE OPTION

The high LTV refinance option is designed for DU (Approve/Eligible) borrowers who are making their mortgage payments on time, but whose LTV ratios exceed the maximum allowed for standard limited cash-out refinance transactions.

Limited Cash-Out Refinance, Fixed Rate, ARMs with Initial Fixed Periods > 5 Years					
Transaction Type	**Units**	**Minimum LTV**	**Maximum LTV**	**Min Credit Score**	**Max DTI**
Principal Residence	~~1~~	~~97.01%~~	FRM: 95% ARM: 95%	640	No Maximum
	2	85.01%			
	3-4	75.01%			
Second Home	1	90.01%			
Investment	1-4	75.01%			

Update as of August 5th, 2020.

Effective Immediately on existing pipeline and new submissions.

We still do not accept borrower with current forbearance on any mortgages.

To be able to accept the loan:

1. ***The borrower must be out of forbearance***
2. ***And must resolve the missed payments outside escrow before funding the loan.***
3. ***LTV maximum 70% and Minimum Fico 720***

We will need the following:

- ***Credit supplement showing account has been reinstated and no longer in forbearance.***
- ***Proof of payments confirming account is now current.***
- ***Source of funds used to pay off the missed payments.***

Note: Loan proceeds from refinance may not be used to pay off missed payments.

These changes apply to new FNMA loan submissions starting June 8th, 2020.

Requirements for borrowers using Self-employment income to qualify

- ***Temporarily requiring additional documentation to support the self-employment income.***

QC must:

1. Be able to verify the business is still running
2. We must validate that their business has the ability to continue to provide a service while in quarantine.
3. Business phone is still being answered
4. Business does not show "closed" on a Google search. It must show that it is open.
5. If applicable, that they have a web site that is functional for ordering or requesting regular service to be performed now – not in a future time. (example: masseuse having a sale for when quarantine is over and the ability to purchase gift cards now). (that would not be an acceptable source of income).
6. Non-essential especially service industries are closed in some areas. Estheticians, hairdressers, nail technicians, massage therapists, Gyms, Day Care facilities, retail of almost all kinds, day spas, etc. CLOSED. We cannot give them income today.

Underwriters must:

1. Be able to obtain current invoices and some concrete validation, (i.e. receipts, current contracts, invoices, etc.) at the time of underwriting.
2. Obtain
   a. An audited YTD Profit & Loss statement reporting business revenue, expenses, and net income up to and including the most recent month the loan application date; **OR**
   b. An unaudited YTD Profit & Loss statement signed by borrower reporting business revenue, expenses, and net income up to and including the most recent month the loan application date, **AND** two depository account (s) statements no older than at least two months represented on the YTD profit & loss statement. Underwriter must review the most recent depository account statements to support and/or not conflict with the information presented in the current YTD P&L statement. Otherwise, underwriter must obtain additional statements or other documentation to support the information from the current YTD P&L.

   Note: The YTD P&L statement must be no older than 60 days old as of the note date.
3. Obtain current Balance Sheet to verify the business stability, in conjunction with the profit loss statement.
4. **Not consider** Small Business Administration PPP or any other similar COVID-19 related loans or grants as **business assets**.
5. Obtain evidence of current business receipts within 10 days of the note date (payment for services performed) prior to funding.

Unemployment benefits as qualifying income.

Underwriters are being reminded that unemployment benefits **cannot be used to qualify** a borrower unless they are clearly associated with seasonal employment that is reported on the borrower's signed federal tax returns.

Furloughed Borrowers

A furlough is a suspension from active employment that does not typically guarantee restoration of an employee's position when the furlough period ends. They are **ineligible** under Temporary Leave Income. Until furloughed employees actually return to work, we **can't use borrower's income to qualify.**

Stocks, Stock Options, and Mutual Funds

1. When used for down payment or closing costs, evidence of liquidation must be documented in all cases.
2. When used for reserves, only 70% of the value of the asset must be considered, and liquidation is not required.

Existing Loan Requirements
Existing Loans must meet the following criteria to qualify… - be a first lien, conventional mortgage loan owned or securitized by FNMA - Have a note date on or after October1, 2017. - Have seasoning of at least 15 months- meaning at least 15 months have passed from the note date of the existing loan to the note date of the new loan.   o For example, if the note date on the existing loan is January 1, 2018, the note date of the new loan must be no earlier than April 1, 2019.

Note: Loans that are part of a risk-sharing structure (for example, credit risk transfers) are eligible to be refinanced under the high LTV refinance option.

Conversely, the following loans are not eligible for refinance under the high LTV refinance option:

- existing HARP loans;
- loans that are subject to outstanding repurchase demands; or
- loans that are subject to recourse, repurchase agreement, indemnification, or another negotiated credit enhancement required at origination for eligibility purposes are not eligible unless
  - the new loan is also subject to a credit enhancement that meets eligibility requirements, or
  - such credit enhancement is not required for eligibility purposes on the new loan

New Loan Requirements
Existing Loans must meet the following criteria to qualify… - Have an application date on or after November 1, 2018. - Be either: ○ a fixed-rate loan; or ○ An ARM that refinances an existing ARM, with the new ARM having a minimum five-year fixed rate term. ○ have a term not to exceed 30 years ○ Meet current general or high-balance loan limits, as applicable, at the time of loan delivery. ○ have a newly executed Uniform Residential Loan Application (Form 1003/1003(S)) for the borrower(s) with all information completed, including borrower income, employment, and assets. ○ Provide a benefit to the borrower in the form of at least one of the following: *a lower P&I payment; a lower interest rate; a shorter amortization term or; movement to a more stable product (for example, from an ARM or step-rate modification to a fixed-rate loan).*

The new loan cannot be originated pursuant to Section 50(a)(6) of Article XVI of the Texas Constitution. Temporary interest rate buydowns are not allowed.

The standard limited cash-out refinance requirements are modified for high LTV loan transactions. The new loan amount is limited to

- the payoff of the UPB of the existing first mortgage loan being refinanced (including accrued interest);
- the financing of closing costs, prepaid items, and points up to $5,000 total for the new loan; and
- Cash back to the borrower up to $250. Excess proceeds may be applied as a curtailment on the new loan.

Lenders may provide an incentive to the borrower(s) in the form of a payment to pay off a portion of the existing loan being refinanced provided the following:

- no repayment is required,
- the payment is reflected on the settlement statement as a lender credit, and
- Because any such reduction of the existing loan balance will impact the LTV ratio as it applies to the calculation of the new loan amount, lenders are advised to use caution as incentives have the potential to reduce the LTV ratio below the minimum allowed for this option.

PROGRAM DETAILS	
Borrower Eligibility	Generally, the borrower(s) on the loan being refinanced (or the current borrower(s) if the existing loan was assumed) must be identical to the borrower(s) on the new loan. However, an existing borrower may be excluded from the new loan for either of the following: • the remaining borrower(s) meets the mortgage payment history requirements and provides evidence that they have been making the payments on the existing loan from their own funds for the most recent 12 months prior to the application of the new loan, or • Due to the death of a borrower. Evidence of the deceased borrower's death must be documented in the loan file. New borrowers may not be added to the new loan refinanced via the high LTV refinance option. Additionally, if the loan being refinanced was assumed by the current borrower(s) prior to the refinance, the current borrowers must have been qualified for the existing loan in accordance with Agency Requirements Borrowers who have applied for or received a modification are eligible for refinancing provided the following: • the borrower benefit provision is met using the prevailing payment, and • The payment history requirement is met.
Property Eligibility	All eligible property types are permitted for refinance under the high LTV refinance option. For properties in condo, co-op, or PUD projects, all project review requirements are waived with the exception that the project is NOT a condo or co-op hotel or motel, houseboat project, timeshare, or segmented ownership project. See. FNMA Ineligible Project list for details. Property and flood insurance will be required.

<table>
<tr><td>Minimum LTV Requirements</td><td>For the new loan to be eligible, the following table provides the minimum LTV ratio requirements for both fixed-rate and ARM loans.
<table>
<tr><th>Occupancy Type</th><th>Units</th><th>Minimum LTV</th></tr>
<tr><td>Principal Residence</td><td>~~1~~</td><td>~~97.01%~~</td></tr>
<tr><td></td><td>2</td><td>85.01%</td></tr>
<tr><td></td><td>3-4</td><td>75.01%</td></tr>
<tr><td>Second Home</td><td>1</td><td>90.01%</td></tr>
<tr><td>Investment Property</td><td>1-4</td><td>75.01%</td></tr>
</table>
The loan being refinanced and the new loan do not have to represent the same occupancy. The occupancy of the subject property may have changed by the time of the high LTV refinance transaction.

There are no maximum LTV, CLTV, or HCLTV ratios for fixed-rate loans. There is a maximum LTV ratio of 95% for ARM loans, but no maximum CLTV or HCLTV ratio.</td></tr>
<tr><td>Eligible Subordinate Financing</td><td>New subordinate financing is only permitted if it replaces existing subordinate financing. In addition, the existing subordinate financing
• may not be satisfied with the proceeds of the new loan, but
• may remain in place as long as it is resubordinated to the new loan, and
• May be simultaneously refinanced as long as the new subordinate lien loan amount does not exceed the existing UPB.</td></tr>
<tr><td>Texas Cash-Out</td><td>Not allowed</td></tr>
<tr><td>Leasehold Estate</td><td>Not allowed</td></tr>
<tr><td>Maximum Financed Properties</td><td>The total REO limits on the number of financed properties the borrower may own is 10 including commercial; 6 Financed.</td></tr>
<tr><td>Paycheck Protection Program (PPP) Business Loans</td><td>• No payment, estimated or otherwise, need be included in DTI at this time.
• Loan proceeds from the Small Business Administration (SBA) PPP or any other similar COVID-19 related loans or grants are not considered business assets.
• Copy of Note/PPP loan document is required for DU files. Not required on LP.</td></tr>
<tr><td>Program Code</td><td>HLTVC (Conforming)
HLTVB (Hi-Balance)
Term numbers to follow – i.e. HLTVC30 (30 year fixed); HLTVB7/1 (7/1 High Balance ARM)</td></tr>
</table>

If the sum of all applicable LLPAs exceeds the caps listed below, the excess will be waived at delivery.

Occupancy	Units	Low Range LTV (no LLPA Caps)	Mid-Range LTV			High Range LTV		
			LTV	LLPA Caps Term <=15yrs	LLPA Caps Term > 15yrs	LTV	LLPA Caps Term <=15yrs	LLPA Caps Term > 15yrs
Primary	~~1~~	~~97.01 – 105~~	~~105.01 – 115~~	~~**0.75%**~~	~~**2.00%**~~	~~>115%~~	~~**0%**~~	~~**0.75%**~~
	2	85.01 – 90	90.01 – 95	**0.75%**	**2.00%**	>100%	**0%**	**0.75%**
	3-4	75.01 – 80	80.01 – 90	**0.75%**	**2.00%**	>90%	**0%**	**0.75%**
2nd Home	1	90.01 – 95	95	**2.00%**	**3.00%**	>105%	**1.50%**	**2.00%**
Investment	1-4	75.01 – 80	80.01 – 90	**2.00%**	**3.00%**	>90%	**1.50%**	**2.00%**

- All AGENCY LLPAs are cumulative