



# DSCR LOAN ELIGIBILITY GUIDELINES

Applicable Programs: Bundt Cake, Cheese Cake,  
Coffee Cake, Funnel Cake 1<sup>st</sup> Lien Programs.

Version 1.0

Effective 07/23/2024



## Table of Contents

1	Introduction .....	6
2	General .....	6
3	DSCR .....	7
3.1	Purchase Qualification .....	7
3.1.1	<b>Coffee Cake Overlay</b> .....	7
3.2	Purchase Qualification for Short Term Rental.....	7
3.3	Refinance Qualification .....	7
3.3.1	<b>Coffee Cake Overlay</b> .....	8
3.4	Refinance Qualification for Short Term Rental.....	8
3.5	Unleased Units.....	8
3.5.1	<b>Funnel Cake Overlay</b> .....	8
3.6	One Unit Property with an Accessory Dwelling Unit (ADU) .....	8
3.6.1	<b>Cheese Cake Overlay</b> .....	9
3.7	Additional Requirements .....	9
3.8	Adjustable Rate and Interest-Only Qualifying.....	9
3.9	DSCR No Ratio .....	9
3.9.1	<b>Funnel Cake Overlay</b> .....	9
4	Eligibility.....	10
4.1	Eligible Borrowers.....	10
4.2	Borrower/Guarantor Experience.....	11
4.2.1	<b>Coffee Cake Overlay</b> .....	12
4.2.2	<b>Funnel Cake Overlay</b> .....	12
4.3	Guarantor(s) Documentation .....	12
4.4	Ineligible Borrowers .....	12
4.5	Visa Eligibility Matrix .....	12
4.5.1	Visa classifications allowed as Non-Permanent Resident Aliens.....	12
4.5.2	Visa types considered as Foreign Nationals .....	15
4.5.3	<b>Funnel Cake Overlay</b> .....	16
4.6	Foreign National.....	16
4.6.1	<b>Cheese Cake Overlay</b> .....	17
4.6.2	<b>Funnel Cake Overlay</b> .....	17



4.7	Foreign Residency .....	17
4.8	Foreign National Documentation Requirements .....	17
4.9	Foreign National Income.....	18
4.10	Foreign National Housing History .....	18
4.11	Automatic Payment Authorization (ACH) .....	18
4.12	Reserves for Foreign National .....	18
4.13	Assets Held in a Foreign Account .....	18
<b>4.13.1</b>	<b>Cheese Cake Overlay</b> .....	18
4.14	Eligible Title Vesting and Ownership .....	18
<b>4.14.1</b>	Acceptable forms of vesting are: .....	18
<b>4.14.2</b>	Vesting in an Entity for a Business Purpose Loan is permitted on an investment property only with the following requirements: .....	19
<b>4.14.3</b>	The following documentation must be provided for each business type. ....	19
5	Eligible Transaction.....	20
5.1	Purchase.....	20
<b>5.1.1</b>	<b>Coffee Cake Overlay</b> .....	20
5.2	Rate/Term Refinance .....	20
<b>5.2.1</b>	<b>Cheese Cake Overlay</b> .....	21
<b>5.2.2</b>	<b>Funnel Cake Overlay</b> .....	21
5.3	Cash-Out.....	21
<b>5.3.1</b>	<b>Cheese Cake Overlay</b> .....	21
<b>5.3.2</b>	<b>Coffee Cake Overlay</b> .....	22
<b>5.3.3</b>	<b>Funnel Cake Overlay</b> .....	22
5.4	Delayed Financing.....	22
5.5	Subordinate Financing.....	22
5.6	CEMA Loans.....	22
5.7	Power of Attorney .....	23
5.8	Prepayment Penalty (Investment Property) .....	23
5.9	Ineligible Transactions .....	24
6	Credit.....	24
6.1	General Requirements.....	24
6.2	Credit Scores .....	25



- 6.3 Tradeline Requirements ..... 25
  - 6.3.1 Coffee Cake Overlay** ..... 26
  - 6.3.2 Funnel Cake Overlay** ..... 26
- 6.4 Collections, Charge-Offs, Judgements, Liens, Garnishments ..... 26
- 6.5 Forbearance, Deferred Payments, Modifications..... 26
- 6.6 Significant Adverse Credit Event..... 27
- 6.7 Consumer Credit Counseling Services ..... 27
- 6.8 Housing History..... 27
- 6.9 No Housing History or Less Than 12 Months Verified ..... 27
- 6.10 Gap Credit Report ..... 27
- 7 Assets ..... 28
  - 7.1 Verification of Assets ..... 29
  - 7.2 Gift Funds ..... 29
    - 7.2.1 Coffee Cake Overlay** ..... 30
    - 7.2.2 Funnel Cake Overlay** ..... 30
  - 7.3 Reserves ..... 30
  - 7.4 Seller Concessions..... 30
- 8 Collateral ..... 30
  - 8.1 Appraisals..... 30
  - 8.2 Appraiser Independence..... 31
  - 8.3 Second Appraisals ..... 31
  - 8.4 Appraisal Review Requirements ..... 31
  - 8.5 One Unit Property with an Accessory Dwelling Unit (ADU) ..... 31
    - 8.5.1 Cheese Cake Overlay** ..... 32
  - 8.6 Appraisal Age ..... 32
  - 8.7 Escrow Holdbacks..... 32
  - 8.8 Solar Panels ..... 32
  - 8.9 Solar Panels Financed and Collateralized (UCC on title)..... 33
  - 8.10 Solar Panels Financed and Collateralized (UCC not on title) ..... 34
  - 8.11 PACE (Property Assessed Clean Energy) ..... 34
  - 8.12 Eligible Property Types ..... 34
    - 8.12.1 Coffee Cake Overlay** ..... 34



- 8.12.2 Funnel Cake Overlay** ..... 35
- 8.13 Ineligible Property Types ..... 35
- 8.14 Leasehold Properties..... 35
- 8.15 Texas Home Equity Loans 50(a)(6) ..... 35
- 8.16 Declining Markets..... 36
- 8.16.1 Funnel Cake Overlay** ..... 36
- 8.17 Flip Transactions ..... 36
- 8.18 Transferred Appraisals ..... 36
- 8.19 Disaster Areas..... 37
- 8.20 Condominium Projects..... 37
- 8.20.1 Coffee Cake Overlay** ..... 39
- 8.21 Non-Warrantable Condos ..... 39
- 8.22 Established Projects..... 39
- 8.23 Newer Projects..... 39
- 8.24 Condotels ..... 40
- 8.24.1 Funnel Cake Condotel Overlays** ..... 40
- 8.25 Condominium Insurance Requirements ..... 41
- 8.26 Hazard Insurance ..... 42
- 9 Multifamily Collateral..... 43
- 9.1 Multifamily 5-10 Units ..... 43
- 9.2 Borrower Experience (Multifamily 5-10 Units)..... 43
- 9.3 Eligible Property (Multifamily 5-10 Units)..... 43
- 9.4 Property Condition (Multifamily 5-10 Units)..... 43
- 9.5 Appraisal Attachments (Multifamily 5-10 Units) ..... 43
- 10 Title Insurance ..... 44
- 10.1 Title Insurance Requirements ..... 44
- 11 Miscellaneous..... 45
- 11.1 Age of Documents Requirements..... 45
- 11.2 Fraud Report ..... 45
- 11.3 OFAC and Watchlist Search ..... 46
- 11.4 Escrows ..... 46





## 1 Introduction

Cake Mortgage Corp. (hereafter referred to as Cake) is dedicated to serving mortgage brokers and loan officers by providing them with a wide range of wholesale mortgage lending solutions. As a wholesale lender, Cake offers a diverse selection of loan products, competitive pricing, and efficient processing, empowering mortgage professionals to better serve their clients.

With a focus on building strong relationships and providing exceptional service, Cake works closely with brokers and loan officers to streamline the lending process and ensure timely closings. By leveraging technology and expertise, Cake aims to be a trusted partner for mortgage professionals, offering the support and resources needed to succeed in today's dynamic housing market.

The Underwriting Guidelines provide eligibility requirements Cake is not obligated to fund a loan even if it satisfies these requirements. Compliance with these guidelines does not create a commitment by Cake to fund/close. Cake has sole discretion to fund any loans.

**If a topic is not addressed within these guidelines, Cake will align with Fannie Mae (FNMA), Chapter B3-1, Manual Underwriting guidelines.**

### **Fair Lending Policy**

Cake complies with all applicable provisions of the Fair Housing Act and Equal Credit Opportunity Act including applicable federal, state, and local requirements. 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 based on sex, race, color, religion, national origin, marital status, age, receipt of public assistance, or because the borrower has in good faith exercised any right under the Consumer Credit Protection Act. Cake will not condone discrimination in any mortgage transaction.

## 2 General

- Borrowers are not required to disclose employment information on the application (Form 1003)
- Income derived from regular employment, retirement or other investments should not be disclosed and tax returns are not required
- The application should otherwise be fully completed including the Schedule of Real Estate Owned listing all properties owned with any associated mortgages (including private mortgages)



### 3 DSCR

Borrowers financing non-owner-occupied investment properties can qualify based on their ability to service the debt over the life of the loan. For Debt Service Coverage, property income is used to qualify the transaction. Debt Service Coverage is available to experienced Investors, First Time Investors, and First Time Homebuyers for either purchasing or refinancing investment properties for business purposes.

- Borrowers are qualified using the following Debt Service Coverage Ratio (DSCR):
  - $DSCR = \text{*Gross Rental Income} \div \text{Qualifying Monthly Mortgage Payment (PITIA) or (ITIA for interest only loans)}$ 
    - Qualifying on I/O's is based on the Interest only payment plus taxes, insurance, and HOA dues
  - Rounding DSCR - Rounding up of the DSCR value is permissible from the 3rd decimal
  - Interest Only loans require a minimum FICO score as per current Program Matrix
- For business purpose loans, borrowers must execute the Business Purpose and Occupancy Affidavit attesting that the loan is intended for business purposes and not for consumer or family use.

#### 3.1 Purchase Qualification

- On Purchase transactions, the qualifying rent figure will be the higher of the 1007 or the current lease provided the difference is not greater than 20%
- If the 1007 is greater than 20%, Seller may use up to 120% of the Lease amount to qualify (i.e., lease is \$1,100 and 1007 is \$1,500 then \$1,320 may be used to qualify)
- If the Lease is greater than 20%, the higher Lease amount may be used with 2 months current proof of receipt of the higher rental income

##### 3.1.1 Coffee Cake Overlay

When a lease agreement exceeds the market rent from FNMA Form 1007

- Two months proof of receipt required, and
- Monthly rent capped at 120% of market rent

#### 3.2 Purchase Qualification for Short Term Rental

- If the subject property for purchase is to be utilized for short term rental purposes, you may use 80% of the AIRDNA expected revenue, provided the appraiser provides commentary by the appraisal for short term rental comps that support the AIRDNA figures
- The lower of the 1007 short-term rental comps or AIRDNA expected revenue will be used. No reduction in LTV required for using short term rental

#### 3.3 Refinance Qualification

- On Refinance transactions, the qualifying rent figure will be the higher of the 1007 or the current lease provided the difference is not greater than 20%





- When the 1007 is greater than 20%, Seller may use up to 120% of the Lease amount to qualify (i.e., lease is \$1,100 and 1007 is \$1,500 then \$1,320 may be used to qualify)
- When the Lease is greater than 20%, the higher Lease amount may be used with 2 months current proof of receipt of the higher rental income
- Leases are required to be no less than twelve (12) months but may convert to month-to-month upon expiration

### 3.3.1 Coffee Cake Overlay

When a lease agreement exceeds the market rent from FNMA Form 1007

- Two months proof of receipt required, and
- Monthly rent capped at 120% of market rent

## 3.4 Refinance Qualification for Short Term Rental

- If subject property leased on a short-term basis utilizing an on-line service such as Airbnb or VRBO, gross monthly rents can be determined by using a 12-month look back period; and
- Either 12-monthly statements, or an annual statement provided by the on-line service to document receipt of rental income
- In addition, a screen shot of the online listing must show the property is actively marketed as a short-term rental
- No reduction in LTV required for using short term rental

## 3.5 Unleased Units

- There is no vacancy factor and the gross rents shown on the 1007 may be used on either Purchase or Refinance transactions
- 100% vacancy allowed on 1-4 unit properties

### 3.5.1 Funnel Cake Overlay

For refinance transactions, the maximum LTV is 70%

## 3.6 One Unit Property with an Accessory Dwelling Unit (ADU)

- For properties defined as a one-unit property with an accessory unit (ADU) may use rental income from the accessory unit subject to the following:
  - Appraisal to reflect zoning compliance is legal
  - Permit is not required to establish zoning compliance
  - Appraisal to include at least one comparable with an accessory unit
  - The appraisal report demonstrates that the improvements are typical for the market through analysis of at least one comparable property with the same use
  - Up to two (2) accessory units are permitted
- Purchase:



- Non Owner-Occupied: User the higher of the market rent on FNMA Form 1007 or actual rent
- Refinance:
  - Market rent for the necessary unit should be documented on FNMA 1007, and the file must include a copy of the current lease with two months proof of current receipt

### **3.6.1 Cheese Cake Overlay**

A maximum of (1) accessory units are permitted.

## **3.7 Additional Requirements**

- Additional requirements that must be met when utilizing DSCR Investment Programs are:
  - Rent loss or loss of use coverage of six months PITIA is required
  - Experienced Investors – proof of management history for at least one year is required. Borrower(s) working in the property management industry constitutes experience and is acceptable
  - No borrower(s) or borrower relatives (direct or by marriage) will occupy the subject property
  - Ownership of the subject property is for business purposes only

## **3.8 Adjustable Rate and Interest-Only Qualifying**

- For ARM loan transactions:
  - For fully amortized ARM programs, the greater of the Note rate or the fully indexed rate is used to determine the qualifying PITIA (Principal, Interest, Tax, Insurance, Association)
  - For interest only ARM programs, the greater of the Note rate or the fully indexed rate is used to determine the qualifying ITIA (Interest, Tax, Insurance, Association)
- Refer to matrix for Index, Margin, Caps, Floor, Reset Period

## **3.9 DSCR No Ratio**

- No ratio is a DSCR less than 0.8
- Purchase/Rate and Term
  - No DSCR ratio restrictions allowed up to 80% LTV on SFR
  - No DSCR ratio restrictions allowed up to 75% LTV on 2-4 Units
- Cashout
  - If less than 0.8 DSCR, reduce LTV by 5%
- FTHB must have 12 months housing history verified by a VOR (Verification of Rent)

### **3.9.1 Funnel Cake Overlay**

No Ratio not permitted on Funnel Cake. Minimum ratio must be 0.75.



## 4 Eligibility

### 4.1 Eligible Borrowers

- US Citizen(s)
- Permanent Resident Alien
  - An individual admitted to the United States as a lawful permanent resident. Lawful permanent residents are legally accorded the privilege of residing permanently in the United States. The Green Card (Form I-551) is evidence of employment authorization.
    - Acceptable evidence of permanent residency include the following:
      - Alien Registration Receipt Card I-551 (Resident Alien Card).
      - Alien Registration Receipt Card I-551 (Resident Alien Card) that does not have an expiration date on the back (also known as a green card).
      - Alien Registration Receipt Card I-551 (Conditional Resident Alien Card) that has an expiration date on the back and is accompanied by a copy of the filed INS Form I-751 (petition to remove conditions).
      - Non-expired foreign passport that contains a non-expired stamp (valid for a minimum of three years) reading “Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until [mm-dd-yy]. Employment Authorized.”
    - Eligible without guideline restrictions.
- Non-Permanent Resident Alien
  - An individual admitted to the United States as a lawful temporary resident. Lawful non-permanent residents are legally accorded the privilege of residing temporarily in the United States. Must validate the borrower has employment authorization. This may be documented with either an EAD or a VISA permitting employment.
  - All nonpermanent resident alien borrower(s) must verify they are legally present in the United States with a copy of one of the following:
    - VISA
      - If expiration is within six months of the loan application and the borrower has not changed employers, a copy of the employer’s letter of sponsorship for visa renewal must be provided.
      - If Visa has expired, a valid USCIS Form I-797 confirming submitted application to renew.
    - EAD Card
      - If expiration is within six months of the application the borrower must show evidence they have applied for an extension or provide a letter from the employer indicating they will continue to sponsor their employment.
- ITIN (Individual Tax Identification Number)



- A Non-Permanent Resident Alien without an SSN can qualify using ITIN (Individual Taxpayer Identification Number)
- The borrower(s) must possess a valid ITIN card or IRS ITIN letter, and an Unexpired Government Photo ID (i.e. Driver’s license, International Passport, etc.)
- Foreign National
  - See Section for Foreign National for detail

All Non-U.S. Citizen Borrower(s) must evidence their residency status by providing applicable USCIS documentation.

## 4.2 Borrower/Guarantor Experience

- Experienced Investor
  - An experienced residential investor is a borrower/guarantor having a history of owning and managing non-owner occupied residential real estate for at least one (1) year in the last three (3) years
  - Ownership of commercial income producing property may also be used as evidence of investor experience
  - Ownership history can be documented for other REO with one of the following:
    - Mortgage history on credit report
    - Property profile report
    - Other 3rd party documentation (e.g., Fraud Report, Settlement Statement, Closing Disclosure)
- First Time Investor
  - First Time Investor is a borrower/guarantor not meeting the Experienced Investor definition
  - Borrower/guarantor must currently own a primary residence for at least one (1) year
  - Verified 12 month mortgage history
  - Maximum LTV 80%
  - Cash-out transactions eligible
- First Time Home Buyer (FTHB)
  - FTHB may also purchase an investment property utilizing the DSCR program
  - A FTHB is defined as an applicant who have never previously owned a home (real property)
  - If a FTHB, for an investment property purchase, is absent a complete rental history for the prior twelve (12) consecutive months, or is currently not paying any rent, that borrower is limited to:
    - Maximum LTV 70%
    - Minimum 1.0:1.0 DSCR
    - Must provide a rent-free letter



### 4.2.1 Coffee Cake Overlay

First Time Home Buyers are NOT eligible.

### 4.2.2 Funnel Cake Overlay

- First Time Home Buyers are NOT eligible. Evidence of a primary residence must be provided.
- First time investor permitted with a max LTV of 75%.

## 4.3 Guarantor(s) Documentation

- Loan Application (e.g., FNMA Form 1003 or other application)
  - Completed for each member of the Entity providing a guaranty. **Must be signed by the individual.**
  - “Title will be held in what Name(s)” should be completed with only the entity name.
- Credit report from all guarantors.
- Note, Deed of Trust/Mortgage and all applicable Riders must be executed by the guarantor in their capacity as an authorized signer for the entity.
- Personal Guaranty
  - The guaranty must be full recourse.
  - The guaranty must reference the Note and loan amount

## 4.4 Ineligible Borrowers

- Borrowers with diplomatic immunity as defined by US Citizenship and Immigration Services (USCIS)
- Persons sanctioned by OFAC or from sanctioned countries: <https://sanctionssearch.ofac.treas.gov/>
- 501(c)(3) Organizations
- Trusts
- Businesses or Persons whose income derives from a business that is federally illegal
- Trusts or business entities whose members include other LLCs, Corporations, Partnerships, or Trusts
- Guardianships

## 4.5 Visa Eligibility Matrix

### 4.5.1 Visa classifications allowed as Non-Permanent Resident Aliens

Visa	Valid EAD Card	Description
B1/A3/G5	C17	Non-immigrant domestic servant (VISA and Valid EAD Card must be combined)



BC-1	N	Broadcaster in the US employed by the International Broadcasting Bureau of the Broadcasting Board of Governors
BC-2,3	Y	Spouse, child of BC-1
C-5; C-51	N	Employment creation
C-52-53		
C-52-53	C09	Spouse or child of C-5 or C-51
DV- 1,2,3	N	Diversity immigrant, spouse, child
E-1, 2, or spouse of E-1, 2 (the spouse does not get a different number for this category)	A17	Treaty/Trade investor or spouse
E-11/EB-1	N	Person with extraordinary ability in the sciences, arts, education, business or athletics
E-12	N	Outstanding professor or researcher
E-13	N	Multinational executive or manager
E-14 /15	C09	Spouse or child of E11, 12, or 13
E-21	N	Professional holding advanced degree or alien of exceptional ability
E22,23	C09	Spouse, child of E-21
E-3	N	Specialty occupation- Australia
E-31	N	Skilled worker
E-32	N	Professional holding baccalaureate degree
E-34,35	C09	Spouse or child of E31 or 32
EW-3	N	Other worker
EW-4,4	C09	Spouse or child of EW-3
G-1, 2, 3, 4, 5		
G-1, 2, 3, 4, 5	N / C04 spouses and children: C04	Employees of international organizations and NATO; spouses and children
H1-B	N	Foreign nationals working in the US in a specialty occupation
H-4	N/A	Spouse or child of H type
I- 5, 51	N	Investor in employment
I-52, 53	C09	Spouse or child of 1-51
IH-3, 4	C09	Child adopted or to be adopted by US citizen
L, L-1a and L-1b	N	Intracompany transferees
N/A	A02	Lawful temporary resident pursuant to sections 245a or 210 of the INA (temp. agricultural worker)
N/A	A03	Refugee



N/A	A05 (or Valid SSN Card)	Asylum granted
N/A	A12	Temporary protected status
N/A	A13	IMMACT Family Unity beneficiary
N/A	A14	LIFE Act Family Unity beneficiary
N/A	All	Deferred Enforced departure
N/A	A10	Granted withholding of Deportation or Removal
N/A	C12	Spouse of an E2 commonwealth of the Northern Mariana Islands investor, eligible for employment. In the CNMI only
N/A	C14	Alien granted deferred action
N/A	C16	Registry applicant
N/A	C19	Temporary Protected status
N/A	C31	Principal beneficiary or qualified child of approved VAWA self-petition
N/A	C33	DACA
N/A	C10	Nicaraguan Adjustment & Central American Relief act
N/A	C08	Asylum applicant, status pending
N-8 OR 9	A07	Parent or child of international organization employee granted permanent residence
NATO-1-6	C07	NATO members, staffs, and families for temporary stay
O	N	Extraordinary ability in science, education, the arts, business or athletics
R-1		Religious workers
R-5, 51	N	Investor in pilot program
R-52, 53	C09	Spouse or child of R-51
SD-1	N	Religious workers
SD-2, 3	C09	Spouse or child of SD-1
SE-1	N	Employees or former employees of the US Gov't abroad
SE-2, 3	C09	Spouse or child of SE-1
SF-1	N	Former employees of the Panama Canal Company or Canal Zone Gov't
SF-2	C09	Spouse or child of SF-1
SG-1	N	Former employees of the US gov't in the Panama Canal Zone
SG-2	Y	Spouse or child of SG-1



SH-1	N/A	Certain former employees of the Panama Canal Company or Canal Zone gov't on 4/1/79
SH-2	C09	Spouse or child of SH-1
SI	N	Interpreters
SJ-1	N	Foreign medical graduate
SJ-2	C09	Spouse or child of SJ-1
SK-1	N	Retired international organization employee
SK-2	C09	Spouse of SK-1
SK-3	C09	Unmarried child of an international organization employee
SK-4	C09	Surviving spouse of deceased international organization employee
SN-1	N	Retired NATO6 civilian
SN-2, 3	C09	Spouse of child of NATO6 civilian employee
SN-4	C09	Surviving spouse of deceased NATO6 civilian employee
SQ	N	Iraqi/Afghans who work on behalf of the US government
SR-2, 3	C09	Spouse or child of SR-1
SR-1	N	Religious workers
T-1-4	A16 OR C25	Victim or spouse or child or parents of victim of human trafficking
T-5, 51	N	Employment creation
T-52, 53	C09	Spouse or child of T-51
TC NAFTA, TN, TD	N	Canadian or Mexican citizens working in the US
U-1-4	A19 OR A20	Victim or family member of victim of criminal activity

#### 4.5.2 Visa types considered as Foreign Nationals

Visa	Valid EAD Card	Description
B-1,2	N/A	Business visitor
B-11, B-16	C09	Unmarried son or daughter of US citizen





B-12, B-17	C09	Child of B-11 or B-16
B31-33	C09	Married son or daughter of US citizen (B-31), spouse of B31 or child of B-31
C-21-25	C09	Spouse or child of permanent resident or FX 1
C-31-33	C09	Spouse of child of US citizen
CR-1-2, 5	C09	Spouse of child of US citizen
CX-1-3	C09	Spouse, child, or stepchild of lawful permanent resident
F-3, 4, 11, 12-25, 31-33, 41-43, F-2 A&B	C09	Family members of permanent residents or US citizens
F-1	C03	Student
FX-1-3	A09	Spouse or child of permanent resident or FX 1
H-2 A&B	N/A	Temporary workers
H-3	N/A	Temporary training
IR-1-5	C09	Spouse, child, or child to be adopted of US citizen
J-1, J-2	N	Cultural exchange visitor
K-1 or 3	A06	Fiancée of US citizen
L-2, 3	A18	Spouse or child of L-1
M-1	C06	Student seeking practical training after completing studies
P-1, P-2		Non-immigrants coming to the U.S. to perform in athletics or entertainment
Q	N/A	Cultural exchange program
V-1, 2, 3	A15	Married to or a child of a legal permanent resident and you have been waiting at least 3 yrs. for the approval of a petition for lawful permanent resident status

### 4.5.3 Funnel Cake Overlay

- DACA borrowers are not allowed
- C08, C09, C10 visas not allowed

## 4.6 Foreign National

- A Foreign National is a non-resident alien who is not authorized to live or work in the U.S. A Foreign National may periodically visit the U.S. for various reasons including vacation and/or business
- To be eligible, the borrower must live and work in another country and be a legal resident of that same country
- Any borrower(s)/guarantor(s) identified on OFAC sanction list are ineligible



#### 4.6.1 Cheese Cake Overlay

- Max LTV of 70%
- Cash Out Refinance not allowed
- Minimum 12 Months Reserves + 2 Months reserves for each additional property
  - All funds must be sourced and seasoned for 60 days and in a US account for 30 days
- Must document proof of primary residence
- Housing history must be 0x30x24
- No prior credit events allowed

#### 4.6.2 Funnel Cake Overlay

- Max LTV of 70% for Purchase
- Max LTV of 60% for Refinance
- Minimum DSCR of 1.0

### 4.7 Foreign Residency

- A foreign national borrower must evidence their primary residence for the country issuing their Passport
- A complete loan application (FNMA Form 1003 or similar application) is required on all loan files reflecting the borrower's address for their primary residence in their country of origin
- The application must include the borrower's full legal name, phone number, address including flat, floor, unit or house number, street name, city, province/state along with a postal code

### 4.8 Foreign National Documentation Requirements

- The following are required as evidence the borrower is in the U.S legally:
  - Copy of the borrowers valid and unexpired passport
  - Copy of valid Visa. (See Visa Matrix for eligibility)
- For DSCR transactions, if a non-U.S. citizen is borrowing with a U.S. citizen, foreign national documentation requirements do not apply
- OFAC screening for individuals
- OFAC Sanctioned Countries
- Individuals with Diplomatic immunity are not eligible
- Documents signed by Borrowers outside of the United States must be notarized by a U.S. embassy or consular official
  - The certificate of acknowledgment must meet the standard notarial requirements and must include the embassy or consular seal.
  - If the U.S. embassy or consular official is unavailable, a notary is acceptable if the country, where signing is taking place, is part of the Hague Convention and the signed documents are accompanied by an Apostille



- Power of Attorney (POA) is not allowed

## 4.9 Foreign National Income

- DSCR only

## 4.10 Foreign National Housing History

- A housing history for the borrower's primary residence is not required

## 4.11 Automatic Payment Authorization (ACH)

- Automatic Payment Authorization (ACH) Form is required for all foreign national borrowers
- Funds must be from a U.S. Bank

## 4.12 Reserves for Foreign National

- See Matrix for program specific

## 4.13 Assets Held in a Foreign Account

- Must be verified in U.S. Dollar equivalency at the current exchange rate via either [www.xe.com](http://www.xe.com) or the Wall Street Journal conversion table
- Sufficient funds to close must be transferred to an U.S. account or Escrow / Closing Agent at least three (3) days prior to any closing date
- A copy of the two (2) most recent statements are required
  - Seasoning of funds are not required
- Bank statements in any language other than English must be translated into English.

### **4.13.1 Cheese Cake Overlay**

All funds for down payment, closing costs, and reserves must be sources and seasoned for 60-days and must be in a US account for 30 days.

## 4.14 Eligible Title Vesting and Ownership

### **4.14.1 Acceptable forms of vesting are:**

- Individuals
- Joint Tenants
- Tenants in Common



- Inter-Vivos Revocable Trust
- Limited Liability Company (LLC)
- Limited and General Partnerships
- Corporations

#### **4.14.2** Vesting in an Entity for a Business Purpose Loan is permitted on an investment property only with the following requirements:

- Entity must be domiciled in a U.S. state.
- Business structure is limited to a maximum of four (4) owners/ members.
- Personal Guarantees must be provided by all owners/members of the Entity who holds more than 25% ownership of the entity. Members who hold less than 25% ownership may be excluded from the loan.
- Personal Guarantors on the loan must sign the security instruments.
- Each Entity owner / member providing a Personal Guaranty must complete a Form 1003 or similar credit application indicating clearly that such document is being provided in the capacity of the guarantor. The application of each member/owner providing a Personal Guaranty and their credit score, and creditworthiness will also be used to determine qualification and pricing.

#### **4.14.3** The following documentation must be provided for each business type.

- Limited Liability Company (LLC)
  - Entity Articles of Organization, Partnership, and Operating Agreements as required.
  - Tax Identification Number (Employer Identification Number – EIN).
  - Certificate of Good Standing.
  - Certificate of Authorization for the person executing all documents on behalf of the Entity.
  - LLC Borrowing Certificate required when all owners/members are not on the loan.
- Limited and General Partnerships
  - Filed Partnership Certificate (if a general partnership, filing with the SOS may not be required).
  - Partnership Agreement (and all Amendments).
  - Certificate of Good Standing (issued by the Secretary of State (SOS) where the Partnership is registered).
  - Tax Identification Number (EIN).
  - Limited partner consents (where required by partnership agreement).
- Corporations
  - Filed Certificate/Articles of Incorporation (including all Amendments).
  - By-Laws (including all Amendments).
  - Certificate of Good Standing (issued by the Secretary of State (SOS) where the business is incorporated).
  - Tax Identification Number (EIN).
  - Borrowing Resolution/Corporate Resolution granting authority of signor to enter loan obligation.



## 5 Eligible Transaction

### 5.1 Purchase

- A purchase money transaction is a transaction in which the proceeds from the loan are used to finance the acquisition of the property
- LTV/CLTV is based upon the lesser of the sales price or appraised value
- Assignment of contract or finder's fees reflected on the purchase contract are limited to no greater than \$30,000 and to be included in the sales contract price and associated with the LTV/CLTV calculation
- Non-arm's length transaction (See Non-arm's length transaction section)
- 1031 Exchange

#### 5.1.1 Coffee Cake Overlay

Assignment of contract or finder fees reflected on the purchase contract are not eligible under Coffee Cake. Any amount must be removed from the contract price and excluded from the LTV/CLTV calculation.

### 5.2 Rate/Term Refinance

- A Rate/Term refinance is the refinancing of an existing mortgage for the purpose of changing the interest and/or term of a mortgage without advancing new money on the loan
- Closing costs and prepaid items (interest, taxes, insurance) including prepayment fees may be added to new loan amount. Taxes more than 60 days delinquent cannot be paid with a R/T refinance.
- At least one borrower on the new loan must be an owner (on title) of the subject property at the time of the initial application. Exceptions are allowed if:
  - the borrower acquired the property through an inheritance or was legally awarded the property (such as through a divorce, separation, or dissolution of a domestic partnership); or
  - the property was previously owned by an inter vivos revocable trust and the borrower is the primary beneficiary of the trust
- Payoff of purchase money 2<sup>nd</sup> TD allowed without seasoning requirement
- Pay off any subordinate loan not used in the acquisition of the subject property, provided one of the following apply:
  - Closed-end loan, at least 12-months of seasoning has occurred
  - HELOC, at least 12-months of seasoning has occurred, and total draws over the past 12-months are less than \$2,000
- Incidental Cash-Out on a Rate/Term and Debt Consolidation Refinance
  - Cash back in an amount not to exceed the lesser of 2% of the new loan amount or \$5,000
- Current appraisal market value to be used regardless of acquisition date



- If property was listed for sale within the past 3 months, the lower of the appraised value or listing price to be used
- If the most recent refinance transaction on the property was a cash-out refinance within the last 6 months (note to note) , the new mortgage is not eligible as a Rate/Term and must proceed as a cash-out refinance.

### 5.2.1 Cheese Cake Overlay

- Max cash back of the greater of 1% of the new loan amount or \$2,000
- If the Subject property is owned for less than 6 months (note to note), then the LTV/CLTV will be based on the lesser of the original purchase price plus improvements or current appraised value

### 5.2.2 Funnel Cake Overlay

Properties listed for sale must be taken off the market prior to application date.

## 5.3 Cash-Out

- A cash-out refinance is a refinance that does not meet the Rate/Term refinance definition. Cash-out would include a refinance where the borrower receives cash from the transaction
- A mortgage secured by a property currently owned free and clear is considered cash-out refinance
- The payoff of delinquent real estate taxes (60 days or more past due) is considered cash-out
- At least one of the borrowers must be on title
- Net proceeds from a cash-out transaction may be used to meet reserve requirements
- Current appraised market value to be used regardless of acquisition date
- If property was listed for sale within the past 3 months, the lower of the appraised value or listing price to be used
- Must have at least three (3) months title seasoning (note to note)
- Cash-out seasoning of three (3) months or less is allowed with the following restriction:
  - Document that the borrower acquired the property through an inheritance, or was legally awarded the property through divorce, separation, or dissolution of a domestic partnership
  - Appraised market value may be used

### 5.3.1 Cheese Cake Overlay

Property must be removed from listing for at least three months prior to the note date. Properties listed for sale or purchased within the last 6 months (note to note), require a 5% reduction in LTV and will be based on the lesser of the original purchase price plus improvements or current appraised value. For properties that have been listed by the current owner within the last 6 months, the LTV will be based on the lesser of the list price or appraised value.



### 5.3.2 Coffee Cake Overlay

If the subject property has been owned for 6-months or less, value for determining the LTV must be based on the lesser of the acquisition value plus documented improvements (if any), or the current appraised value.

### 5.3.3 Funnel Cake Overlay

- Properties listed for sale must be taken off the market prior to application date
- For cash out transactions, if the property was listed in the (6) months prior to the application date, a 10% LTV reduction is required. The property value is the lesser of the previous listing price or the appraised value.

## 5.4 Delayed Financing

- Delayed purchase financing is eligible when a property was purchased by a borrower for cash within 180 days of the loan application
  - The transaction is considered cash out refinance for pricing and eligibility. Cash-in-hand limits do not apply
  - The original purchase transaction was an arms-length transaction
  - The source of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property)
  - The maximum LTV/CLTV ratio for the transaction is based upon the lesser of the current appraisal value or previous purchase price plus documented improvements
  - The preliminary title search or report must confirm that there are no existing liens on the subject property
  - The new loan amount can be no more than the actual documented amount of the borrower's initial investment subject to the maximum LTV/CLTV for cash-out transactions
  - NOTE: Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan

## 5.5 Subordinate Financing

- Not permitted with the exception of Solar/UCC

## 5.6 CEMA Loans

- Consolidation, Extension, and Modification Agreement (CEMA) loans are available for New York refinance loans only.
- CEMA transactions are required to close with a licensed attorney firm and subject to their review and costs



## 5.7 Power of Attorney

- A Power of Attorney allowed under following terms:
  - US Citizen or Permanent Residents
  - Not allowed if vesting into LLC, General Partnership or Corporation
  - Power of Attorney must be transaction specific and has subject property address
  - Purchase or Rate/term Refinance transactions
  - Not eligible for cash-out transactions or with Foreign National borrowers
  - Must be recorded with the Mortgage/Deed of Trust
  - Must contains an expiration date
  - May be used to execute the final loan documents only
  - Borrower who executed the POA signed the initial FNMA Form 1003
  - An interested party to the transaction (such as seller, broker, loan officer, realtor, etc.) may not act as Power of Attorney

## 5.8 Prepayment Penalty (Investment Property)

- Where permitted by applicable laws and regulations on an investment property, a prepayment charge may be assessed in the period between one (1) and five (5) years following the execution date of the Note
- The following prepayment structures may be used:
  - Six (6) months of interest – The prepayment charge will be equal to six (6) months of interest on the amount of the prepayment that exceeds 20% of the original principal balance. The charge applies to loans that pay off due to sale or refinance, or curtailments that exceed 20% of the original principal balance in a given 12-month time period. (Not eligible under 5-8 unit)
  - A fixed percentage of no less than 3% - The prepayment charge will be equal to a fixed percentage and applied to any curtailment or the entire outstanding principal balance during the prepay period. The charge applies to loans that pay off due to sale or refinance
  - Declining structures that do not exceed 5% and do not drop below 3% in the first 3 years. For example: (5%/4%/3%/3%/3%) or (5%/4%/3%/2%/1%) – The prepayment charge will be equal to the percentage in effect and applied to any curtailment or the entire outstanding principal balance during the prepay period. The charge applies to loans that pay off due to sale or refinance
- The following state restrictions apply:
  - Prepayment penalties are not allowed in AK, KS, MI, MN, NM, OH and RI
    - Restrictions do not apply to DSCR 5-8 Unit
  - Prepayment penalties are not allowed on loans vested to individuals in IL and NJ
  - Pennsylvania – Prepayment penalties are not allowed on loan balances less than an adjusted value as determined by the Dept of Banking & Securities. For calendar year 2024 the base figure amount is \$312,159





- Only declining prepayment penalty structures are allowed in MS

## 5.9 Ineligible Transactions

- Assumable
- Construction to Permanent
- Builder Bailout
- Conversion Loans
- Lease Options/Rent-to-Own
- Land Contracts
- Non-Arm's Length Transaction
- Assignments of the contract to another buyer greater than \$30,000
- No Graduated Payment Mortgage Loan
- Periodic Payment - Loans must have periodic payments due and loans can't have more than 3 monthly payments paid in advance from the proceeds of the mortgage loan

## 6 Credit

A credit report is required for each individual borrower, including any member of an entity providing a personal guaranty. The credit report should provide merged credit data from the three major credit repositories: Experian, TransUnion, and Equifax. Either a three-bureau merged report, or a Residential Mortgage Credit Report (RMCR) is required.

### 6.1 General Requirements

Each report should comply with the following:

- The credit bureaus utilized in generating borrowers' credit reports comply with the Fair Credit Reporting Act
- Appropriate authorization from the Borrower(s) is required prior to obtaining credit
- Credit supplements must be included in and made a part of the report
- Credit report used to evaluate a loan may not reflect a security freeze. If the borrower(s) unfreeze credit after the date of the original credit report, a new tri-merged report must be obtained to reflect current and updated information from all repositories
- The credit report should be dated within 120 days of the Note and Mortgage
- A written explanation for credit inquiries is not required for DSCR



## 6.2 Credit Scores

- In general, a minimum of 2 credit scores are required to be provided and used to determine the qualifying credit score for loan approval unless stated otherwise on matrix. No FICO / 1 FICO available on a limited program basis
  - Lower of 2 or Middle of 3 scores
- If 2 or more borrowers:
  - Determine the mid score of each borrower, highest mid score of that result is the representative mid score

## 6.3 Tradeline Requirements

- If at least one borrower has three (3) credit scores, the minimum tradeline requirement is waived, otherwise, each borrower must meet the minimum tradeline requirements
- Minimum tradeline requirements:
  - At least three (3) tradelines reporting for a minimum of 12-months, with activity in the last 12-months, or
  - At least two (2) tradelines reporting for a minimum of 24-months, with activity in the last 12-months
- Borrowers who do not meet one of the above tradeline requirements, but have a minimum of two credit scores, can alternatively satisfy the tradeline requirement by meeting the requirements below:
  - No fewer than eight (8) tradelines are reported, one (1) of which must be a mortgage or rental history, and;
  - At least one (1) tradeline has been open and reporting for a minimum of twelve (12) months, and;
  - The borrower has an established credit history of at least four (4) years
- If the borrower does not meet the tradeline requirement but has a valid credit score, alternative trade lines may be used to qualify by providing the following:
  - If the borrower has one standard tradeline for 12 months then two alternative tradelines for 12 months are required
  - If the borrower has one standard tradeline for 24 months, then one alternative tradeline for 24 is required
  - Acceptable alternative tradelines:
    - 12 or 24 months' rent verification (Professional Management Company VOR for 12 or 24 months, or Private VOR for 12 or 24 months + 12 months of canceled checks)
    - 12 or 24 months' utility bill verification
    - 12 or 24 months' phone bill verification
    - 12 or 24 months' HOA bill verification
- Unacceptable tradelines to be counted as tradelines:
  - Any liabilities in deferment status



- Accounts discharged through bankruptcy
- Authorized user accounts
- Charge-offs
- Collection accounts
- Foreclosures
- Pre-foreclosure sales
- Short sales

### **6.3.1 Coffee Cake Overlay**

The borrower is required to meet the minimum tradeline requirement of 2 tradelines for 24-months, or 3 tradelines for 12-months reporting on the credit report. The use of a VOR or alternative tradelines is not permitted.

### **6.3.2 Funnel Cake Overlay**

Limited tradelines acceptable on an exception basis. Must be prior approved by CAKE.

## **6.4 Collections, Charge-Offs, Judgements, Liens, Garnishments**

- Judgements, Garnishments and Liens: The borrower must pay-off all open judgements, garnishments, and liens (including mechanics liens or material men’s liens) prior to the loan closing
- Collection Accounts and Charge-offs do not have to be paid in full if the following applies:
  - Collections and charge-offs < 24 months old with a maximum cumulative balance of \$2,000
  - Collections and charge-offs ≥ 24 months old with a maximum of \$2,500 per occurrence
  - Collections and charge-offs that have passed beyond the statute of limitation for that state (supporting documentation required)
  - All medical collections
  - IRS repayment plans with 3 months history of payments may remain unpaid
- Past Due Accounts must be brought current

## **6.5 Forbearance, Deferred Payments, Modifications**

- COVID Forbearance must be released and fully current
- COVID Forbearance released within 12 months of Note Date will be subject to 0x90x12. See program matrix for eligibility
- Non-COVID deferred payments are unacceptable credit events and disqualifies borrower(s) from financing (unless otherwise noted on matrix)
- Mortgage Loan Modifications are acceptable with 36 months seasoning, minimum 720 FICO and no additional credit events after modification. Examples of mortgage loan modifications are:
  - Principal and/or Interest Forgiveness on either the first or second mortgage
  - Principal Curtailment by or on behalf of the investor to simulate principal forgiveness
  - Conversion of any part of the original mortgage debt to a “soft” subordinate mortgage



- Conversion of any part of the original mortgage debt from secured to an unsecured debt

## 6.6 Significant Adverse Credit Event

- Bankruptcy, Short Sale, Deed-in-Lieu, Charge-off Mortgage and/or Foreclosure must be seasoned at least 12 months from time of application
- Refer to Matrix for eligibility for credit events (Bankruptcy, Foreclosure, Short sale/Deed-in-Lieu)

## 6.7 Consumer Credit Counseling Services

- Borrower enrollment in Consumer Credit Counseling Services (CCCS) is allowed when a minimum of 12 months have elapsed on the plan and evidence of timely payments for the most recent 12 months is provided. The CCCS administrator must also provide a letter allowing the borrower to seek financing on a new home while enrolled in the plan
- Completion date must appear on the credit report. If not on credit report, the borrower is required to submit verification from the counseling agency establishing the date of completion

## 6.8 Housing History

Housing history for the DSCR Doc type is limited to verifying 12 months of the borrower's primary residence and the subject property if a refinance transaction. For these properties, VOMs are required on any outstanding mortgages including private mortgages. No additional documentation is required to support the VOM (e.g. cancelled checks not required). If borrower is renting primary, a VOR from landlord is required with no additional documentation.

Any mortgage reported on the credit report for any property owned by the borrower needs to be included in the housing history eligibility

- For any non-subject property, non-primary mortgages not reporting to the credit bureau, additional housing history is not required

## 6.9 No Housing History or Less Than 12 Months Verified

- Borrowers who own their primary residence free and clear for a minimum of 12 months are acceptable
- Experienced investors who provide verification of living rent free are acceptable provided they own other REOs with acceptable mortgage financing history

## 6.10 Gap Credit Report

- Not required



## 7 Assets

- Assets do not require seasoning
- The following is a list of established assets that can be used to determine a borrower’s liquidity. Next to each asset is the value that may be used.
  - Checking and Savings (100%)
  - Certificates of Deposit (100%)
  - U.S. Savings Bonds (100% if fully matured, otherwise 80%)
  - Marketable Securities (100% of vested account value, margin not counted towards balance) - Marketable Securities are defined as legitimate stocks, bonds or mutual funds that are publicly traded
  - Restricted Stock Units (RSU) – Refer to RSU guide for more info
  - IRA, Keogh, and 401(K) Retirement Accounts (70% of the vested balance may be considered for assets)
  - Pension Plans (70%) - Only amounts accessible within a 30-day window are allowed Account statements should be updated with a transaction history dated within 30 days of note date due to market volatility
  - Annuities (70%) - Only amounts accessible within a 30-day window are allowed
  - Assets held in in a Trust require the following:
    - Obtain written documentation (e.g., bank statements) of the value of the trust account from either the trust manager or the trustee, and
    - Document the conditions under which the borrower has access to the funds
  - Business accounts may be considered for assets
    - Borrower must own at least 50% of the business
    - CPA letter to verify ownership percentage
    - CPA letter to verify that the use of business funds will not have a negative impact on the business
    - Access letters from the remaining owners of the business granting the use of funds
    - Business Purpose Loans:
      - Assets held in the name of the vested entity:
        - 100% of the assets may be used
      - Assets not held in the name of the vested entity:
        - The amount of business assets that may be utilized is limited to the borrower’s ownership percentage in the business
  - Cash Value of Life Insurance
  - Spousal accounts
    - Accounts held solely in the name of a non-borrowing spouse may be used for down payment and closing costs only and are subject to the requirements outlined in Verification of Assets. Accounts held solely in the name of a non-borrowing spouse may not be used to meet reserve requirements.
  - Non-regulated Financial Assets



- Crypto Currency – Bitcoin and Ethereum are eligible sources of funds for the down payment, closing costs and reserves. Crypto is not an eligible liquid asset for asset utilization/depletion
  - Down payment and closing costs: currency must be liquidated and deposited into an established U.S. bank account
  - Reserves: Loan file must include a statement meeting the requirements under account statements to document ownership of the crypto holdings. Current valuation, within 30 days of the loan Note date, can only be determined from the Coinbase exchange. 60% of the current valuation will be considered eligible funds
- Delayed 1031 Exchange funds for “like—kind exchange” are eligible for EMD, down payment and closing costs. 1031 Exchange funds are not eligible for reserves

## 7.1 Verification of Assets

- May use any of the following for asset verification:
  - Verification of Deposit completed by the verifying financial institution (FNMA Form 1006) or equivalent
  - Large deposits do not need to be sourced on DSCR loans
  - Complete copies of bank statements or investment portfolio statements from the most recent 30 days prior to the application date. Summary statement is not acceptable
  - The statements may be computer generated forms and must include or state the following:
    - The borrower as the account holder
    - The account number(s)
    - The timeframe the statement(s) cover
    - All deposits and withdrawal transactions
    - The previous close balance, the current balance, and the ending account balance
    - Retirement account statements must be from the most recent period and show the borrower’s vested amount and terms

## 7.2 Gift Funds

- The borrower must demonstrate they have 10% of their own funds for the down payment but does not have to be contributed to the transaction
- Gift funds allowed with the following restrictions:
  - Gifts may be from any 3<sup>rd</sup> party. Gifts can be used to pay off debt
  - 100% gift allowed
  - Gift may be used towards down payment, closing cost, reserves and pay off debt
  - Allowed on Purchase, Rate and Term, Cashout transactions



### 7.2.1 Coffee Cake Overlay

Minimum 5% contribution is required for investment properties with an LTV > 75%

### 7.2.2 Funnel Cake Overlay

A minimum of 10% borrower contribution is required.

## 7.3 Reserves

- See Matrix for program specific

## 7.4 Seller Concessions

- All Interested Party Contributions must be properly disclosed in the sales contract, appraisal, loan estimate and closing disclosure and be compliant with applicable federal, state, and local law
- Interested party contributions include funds contributed by the property seller, builder, real estate agent/broker, mortgage lender, or their affiliates, or any other party with an interest in the real estate transaction
- A borrower participating in the transaction (i.e., borrower acting as their own agent) may contribute funds (i.e., commission) up to the maximum contribution limits referenced above
- Interested party contributions may only be used for closing costs and prepaid expenses (Financing Concessions) and may never be applied to any portion of the down payment or contributed to the borrower's financial reserve requirements
- Non-Owner Occupied
  - All LTVs: 6%
- **Excessive Contributions:**
  - Contributions in excess of the above stated limits are allowable; however, the excess of the contribution(s) must be subtracted from the purchase price for the calculation of LTV / CLTV

# 8 Collateral

## 8.1 Appraisals

A Full appraisal involves a complete inspection of the home, including the interior and exterior of the subject property. Acceptable appraisal report forms must follow FNMA and FHLMC standards which include Uniform Appraisal Data Set (UAD) Specifications and the Field Specific Standardization Requirements. A Full Interior/Exterior appraisal report, including color photographs, requires use of one of the following forms depending on the property type:

- Uniform Residential Appraisal Report – Fannie Mae®/Freddie Mac Forms 1004/70
- Small Residential Income Property Report – Fannie Mae®/Freddie Mac Forms 1025/72



- Individual Condominium Unit Appraisal Report – Fannie Mae®/Freddie Mac Forms 1073/465
- Appraisal Update and/or Completion Report – Fannie Mae®/Freddie Mac Forms 1004D/442
- Single Family Comparable Rent Schedule – Fannie Mae®/Freddie Mac Forms 1007/1000
- Manufactured Home Appraisal Report – Fannie Mae®/Freddie Mac Forms 1004C/70B

## 8.2 Appraiser Independence

- Appraisers must have no direct or indirect interest, financial or otherwise in the subject property or with the involved parties
- Associates are prohibited from asking appraisers to report a predetermined value or withhold disclosure of adverse features
- All appraisals must be ordered through an Appraisal Management Company (AMC)
- We will not accept an appraisal from an appraiser who works for the lender, borrower or any parties affiliated with the transaction

## 8.3 Second Appraisals

- Refer to matrix for program specifics

## 8.4 Appraisal Review Requirements

- Appraisal reviews are required for all loan amounts
- Any loan amount over \$1,500,000.00 will require 2 full appraisals
- The lesser of the two is to be used for valuation for the loan file
- When only one appraisal is provided follow the below to determine if a secondary report is required:
  - When the LCA/CU score is greater than 2.5 a Collateral Desktop Analysis (CDA) from Clear Capital Appraisal Management, AVM within 30 days of note date, BPO (Broker Price Opinion), Appraisal Risk Review (ARR) from Pro Teck, or similar independent vendor is required. If you have either one or both LCA/CU score at 2.5 or less this is acceptable if the reports were both pulled around the same date
    - If FSD score or valuation from either of these companies is less than 90% of the appraised value, then the LTV will be calculated using the lower of the CDA, AVM, BPO or the ARR value
    - If secondary review product listed above not available, then another appraisal is required
    - On all Purchase Money Transactions, closing instructions should indicate that no credits for property conditions are permitted and there should be no seller concessions due to damage to the property that was caused by the declared federal disaster
    - AVM must be ordered from one of the following vendors: Clear Capital, Collateral Analytics, House Canary, or Red Bell Real Estate (Homegenius).

## 8.5 One Unit Property with an Accessory Dwelling Unit (ADU)

- If the property contains an accessory unit, the property is eligible under the following conditions:
  - The property is defined as a one-unit property with an accessory unit





- Up to 2 Accessory Units are permitted, unless using Cheese Cake program
- The appraisal report demonstrates that the improvements are typical for the market through an analysis of at least one comparable property with the same use
- Rental income may be used for the accessory unit subject to the following:
  - Appraisal to reflect zoning compliance is legal
    - Permit is not required to establish zoning compliance
  - Appraisal to include at least one comparable with an accessory unit
  - Refinance
    - The market rent for the accessory unit should be documented on FNMA Form 1007 and the file must include a copy of the current lease agreement with two (2) months proof of current receipt
  - Purchase
    - Non Owner-Occupied: User the lower of the market rent on FNMA Form 1007 or actual rent

### 8.5.1 Cheese Cake Overlay

A maximum of (1) accessory units are permitted.

## 8.6 Appraisal Age

- The appraisal should be dated no more than 120 days prior to the Note date
- If an appraisal report will be more than 120 days old on the date of the Note, regardless of whether the property was appraised as proposed or existing construction, the appraiser must perform a recertification of value per FNMA 1004 D or FHLMC Form 442. The appraiser must inspect the exterior of the property and review current market data to determine whether the property has declined in value since the date of the original appraisal. This inspection and the results of the analysis must be reported on the Appraisal Update and/or Completion Report (FNMA Form 1004D)
  - If the appraiser indicates on FNMA Form 1004D that the property value has declined, then the seller must obtain a new appraisal for the property
  - If the appraiser indicates on FNMA Form 1004D that the property value has not declined, then the seller may proceed with the loan in process without requiring any additional fieldwork

## 8.7 Escrow Holdbacks

- Escrow holdbacks are not allowed
- Any repair or maintenance required by the appraiser must be completed prior to loan funding

## 8.8 Solar Panels

- Solar panels that are leased from or owned by a third party under a power purchase agreement or other similar financing arrangement must be considered personal property and not be included in the appraised value of the property
- Property with solar panels are eligible for purchase. If the borrower is, or will be, the owner of the solar panels (meaning the panels were a cash purchase, were included in the home purchase price, were



otherwise financed and repaid in full, or are secured by the existing first mortgage), our standard requirements apply (for example, appraisal, insurance, and title)

- Must determine the ownership and any financing structure of the subject property’s solar panels in order to properly underwrite the loan and maintain first lien position of the mortgage
- Must review title report to determine if the related debt is reflected in the land records associated with the subject property. If insufficient documentation is available and the ownership status of the panels is unclear, no value for the panels may be attributed to the property value on the appraisal unless the seller obtains a UCC “personal property” search that confirms the solar panels are not claimed as collateral by any non-mortgage lender
  - A Uniform Commercial Code (UCC) financing statement that covers personal property and is not intended as a “fixture filing” must be filed in the office identified in the relevant state’s adopted version of the UCC
- Any contributory value for owned or financed solar panels must be noted in the Improvements Section of the Appraisal Report

## 8.9 Solar Panels Financed and Collateralized (UCC on title)

The solar panels are collateral for the separate debt used to purchase the panels, but they are a fixture to the real estate because a UCC fixture filing\* has been filed for the panels in the real estate records (on title report)

Note: A Notice of Independent Solar Energy Producer Contract on title is not to be treated as a UCC fixture filing\*

- Obtain and review the credit report, title report, appraisal, and/or UCC fixture filing\*, related promissory note and related security agreement that reflect the terms of the secured loan
  - Include the debt obligation in the DSCR ratio
- Provided that the panels cannot be repossessed for default on the financing terms, may consider the solar panels in the value of the property (based on standard appraisal requirements)
- Include the solar panels financing balance in the LTV/CLTV ratio calculation (if unable to obtain, utilize original balance). The UCC fixture filing\* must be subordinated with one of the following
  - Subordination Agreement
  - UCC Termination
    - Debt obligation is to be included in DSCR ratio and LTV/CLTV unless proof is provided verifying the debt has been paid down to zero (UCC termination does not automatically verify the debt is paid off)
- CLTA Endorsement 150-06 is not eligible to be used in lieu of a Subordination agreement or UCC Termination

\*A fixture filing is a UCC-1 financing statement authorized and made in accordance with the UCC adopted in the state in which the related real property is located. It covers property that is, or will be, affixed to improvements to such real property. It contains both a description of the collateral that is, or is to be, affixed to that such property, and a description of such real property. It is filed in the same office that mortgages are recorded under the law of the state in which the real property is located. Filing in the land records provides notice to third parties, including title insurance companies, of the existence and perfection of a security interest in the fixture. If



properly filed, the security interest in the described fixture has priority over the lien of a subsequently recorded mortgage.

## 8.10 Solar Panels Financed and Collateralized (UCC not on title)

The solar panels are reported to be collateral for separate (non-mortgage) debt used to purchase the panels, but do not appear on the title report

Note: A Notice of Independent Solar Energy Producer Contract on title is not to be treated as a UCC fixture filing

- Obtain and review the credit report, title report, appraisal, related promissory note and related security agreement that reflect the terms of the secured loan
  - Include the debt obligation in the DSCR ratio
- Contributory value of the solar panels cannot be add towards the appraised value because the panels are collateral for another debt
- Do not include the panels in the LTV/CLTV ratio calculation
- If a previously filed UCC was temporarily removed from title through a UCC termination, evidence must be provided that the UCC was paid in full otherwise the financed balance must be included in LTV/CLTV

## 8.11 PACE (Property Assessed Clean Energy)

- Properties with solar panels and other energy efficient items financed with a PACE loan are not eligible if the PACE loan is not paid in full prior to or at closing
  - PACE loans, in some cases, are also referred to as HERO loans
  - Any property tax statement that reflects PACE, HERO, or equivalent will require proof of payoff
    - If loan proceeds are used to pay off the PACE loan, transaction will be considered cash out

## 8.12 Eligible Property Types

- Single Family Detached
- Single Family Attached
- Single Family with One Accessory Unit (ADU)
- 2-4 Unit Residential Properties
- 5-8 Unit Residential Properties (DSCR only)
- Condominium
- Non-Warrantable Condos
- Condotels
- Manufactured homes\*
- Modular homes
- Properties up to 20 acres\*\*
- Leaseholds (in areas where leaseholds are common)

### 8.12.1 Coffee Cake Overlay

Manufactured homes are not permitted using the Coffee Cake program



## 8.12.2 Funnel Cake Overlay

Maximum five acres if using Funnel Cake program.

## 8.13 Ineligible Property Types

- Assisted Living/Elderly Care/Recover and Treatment
- Group Homes
- Agricultural Properties
- Barndominiums
- Boarding Houses
- C5 or C6 property condition grades
- Units in a Co-op development
- Properties with fractional ownership/Timeshares
- Properties not readily accessible by roads that meet local standards
- Properties not suitable for year-round occupancy, regardless of location
- Properties with nonresidential, income-producing structures on premise (e.g., billboards, cell phone towers, commercial workshop)
- Log Homes
- Houseboats
- Geodesic Domes
- Commercial Properties
- Properties Under Construction
- Rural properties greater than 20 acres
- Properties with less than 500 square feet of living space

## 8.14 Leasehold Properties

- Must provide documentation and leaseholds must meet all Fannie Mae® eligibility requirements (i.e., term of lease)
- The term of the leasehold must run for at least five years beyond the maturity date of the loan, unless fee simple title will vest at an earlier date in the borrower

## 8.15 Texas Home Equity Loans 50(a)(6)

- A Texas Section 50(a)(6) mortgage is a home equity (or cash-out) loan originated under the provisions of Article XVI, Section 50(a)(6), of the Texas Constitution, which allow a borrower to take equity out of a homestead property under certain conditions
- All Texas Home Equity transactions must comply with the requirements listed in the Texas Constitution
- Loans in the state of Texas, that are not part of Texas Section 50(a)(6) transactions are required to have Non-Homestead Affidavit signed at closing
- The borrower must have ownership of a primary residence in Texas at the time of application



## 8.16 Declining Markets

- The maximum CLTV is limited to 80% for purchases and 75% for refinances

### 8.16.1 Funnel Cake Overlay

If the property is in a declining market as indicated by the appraisal, the maximum LTV is reduced by 5%

## 8.17 Flip Transactions

When the subject property is being resold within 180 days of its acquisition by the seller and the sales price has increased more than 10%, the transaction is considered a “flip”. To determine the 180-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) are required to 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 6 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
  - 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
  - Flip transactions must comply with the HPM L appraisal rules in Regulation Z. The full Reg Z revisions can be found at <https://www.consumerfinance.gov/compliance/compliance-resources/mortgage-resources/higher-priced-mortgage-loans-appraisal-rule/>
  - A second full appraisal is required in the following circumstances:
    - Greater than 10% increase in sales price if seller acquired the property in the past 90 days
    - Greater than 20% increase in sales price if seller acquired the property in the past 91-180 days

## 8.18 Transferred Appraisals

- Appraisal transfers are allowed when an appraisal was completed prior to the loan being closed.
- Appraisal transfers are subject to the following requirements:
  - The appraisal must be less than 60-days old (less than 120-days at closing) and ordered through an Appraisal Management Company
  - A letter must be obtained from the original lender on company letterhead stating they are transferring the appraisal
  - Appraisal report must be AIR compliant



- An appraisal delivery form must be provided to the borrower to confirm the borrower's receipt of the appraisal within three (3) business days of the report's completion
- XML, Paid Invoice and SSR's must be included

## 8.19 Disaster Areas

The following guidelines apply to properties located in FEMA declared disaster areas, as identified by reviewing the FEMA website at [www.fema.gov/disasters](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, floods, tornadoes, or wildfires, additional due diligence must be used to determine if the disaster guidelines should be followed

- Appraisals completed **prior** to disaster must obtain the following:
  - The appraiser should provide a statement indicating if the subject property is free from any damage, is in the same condition as the previous inspection, and the marketability and value remain the same
  - An Inspection Report must include new photographs of the subject property and street view
  - Any damage must be repaired and re-inspected prior to funding
- Appraisals completed **after** disaster event must obtain the following:
  - The appraiser must comment on the adverse event and certify that there has been no change in the valuation
  - Any existing damage noted in the original report must be repaired and re-inspected prior to funding

## 8.20 Condominium Projects

To qualify as an acceptable condominium unit, the condominium project must be common for the area and demonstrate good marketability

- LTV > 75% requires full condo review
- LTV ≤ 75%, limited condo review allowed
- Non-warrantable Condo requires full condo review regardless of LTV
- All Loans secured by condominium projects require a completed Homeowners Association (HOA) questionnaire and condominium review except for:
  - Site Condominium
  - 2-4 Unit project provided the following are met:
    - Evidence of sufficient hazard, flood, and walls-in insurance coverage if the subject unit has individual coverage. If the insurance covers the entire project, it must be sufficient in the event of a total loss
- Special assessment information is to be provided to determine if there is a critical repair. Provide purpose, amount, term, balance, status, and cost per unit
- Any projects with significant deferred maintenance or have received a directive from a regulatory or inspection agency to mark repairs due to unsafe conditions are not eligible. Significant deferred maintenance includes deficiencies that meet one or more of the following criteria:
  - Full or partial evacuation of the building to complete repairs is required for more than seven days or an unknown period of time



- The project has deficiencies, defects, substantial damage, or deferred maintenance that:
  - Are severe enough to affect the safety, soundness, structural integrity, or habitability of the improvements; or
  - Has improvements in need of substantial repairs and rehabilitation including many major components; or
  - Impedes the safe and sound functioning of one or more of the building's major structural or mechanical elements, including but not limited to the foundation, roof, load bearing structures, electrical system, HVAC, or plumbing; or
  - Has critical repairs with one of the following characteristics:
    - Mold, water intrusions or potentially damaging leaks to the project's building(s); or
    - Unfunded repairs costing more than \$10,000 per unit undertaken within the next 12-months (does not include repairs made by the unit owner or repairs funded through special assessment)
- Maximum project exposure shall be \$10,000,000 or 20% of project whichever is lower
- Projects consisting entirely of detached (site) units will not require a project review and are eligible for single-family dwelling LTV/CLTV. Completion of the Homeowners Association (HOA) questionnaire is not required for site condominiums
- Subject Unit Minimum Requirements: Minimum 500 Square Feet, Full Size Kitchen
- Commercial space allowed up to 50% of the project
- No more than 20% of the total units in the project may be 60 days or more past due on the condominium/HOA fees
- Single entity ownership is limited to the following:
  - Condos with 2 to 4 units – 1 unit
  - Condos with 5 to 20 units – 2 units
  - Condos with 21 or more units – 25%
- Investor concentration allowed up to 100% on case by case basis.
  - Non-Warrantable - Higher percentages may be accepted when there is an established history of a high percentage of rental units in the project demonstrated
- Projects involved in litigation are acceptable provided the lawsuit(s) are not structural in nature which impact the subject unit and do not affect the marketability of the project units and potential damages do not exceed 25% of HOA reserves or documentation from the insurance carrier or attorney representing the insurance carrier that the insurance carrier has agreed to conduct defense and the HOA insurance policy is sufficient to cover the litigation expense
- Borrower, if not included in the master insurance, must carry HO-6 coverage for replacement of such items as flooring, wall covering, cabinets, fixtures, built-ins, and any improvements made to the unit
- The project, or the subject's legal phase along with other phases, must be complete
  - All common elements in the project or legal phase must be 100% completed
- Florida Condominiums:
  - Condominium units in the state of Florida, if the project is over 30 years old (or 25 years if within 3 miles of the coast), a structural inspection is required for projects greater than 5 stories



- The inspection needs to address items that substantially conform to the definition of a milestone inspection as defined in Florida statute 553.899
  - Inspection must confirm there are no conditions severe enough to affect the safety, soundness, structural integrity, or habitability of the improvements
  - Projects with an unacceptable or no inspection are ineligible
- NOTE: UW Attestation and/or documentation clearly stating whether the property is a warrantable or non-warrantable condo must be delivered with the file

### **8.20.1 Coffee Cake Overlay**

Requires a full review regardless of LTV.

## 8.21 Non-Warrantable Condos

- Anything outside of the Condominium Project guidelines will be considered Non-Warrantable
- Will be determined based on HOA Questionnaire, budget, master insurance, etc.

## 8.22 Established Projects

- All common areas and facilities must be complete
- 90% of the total units in the project must be sold and conveyed to the unit owners
- 40% of the total units in the project must be owner occupied
- All phases are complete
- HOA must be conveyed to the unit owners – no developer or builder-controlled projects allowed
- All comparable sales may be from within the subject’s project if the project is established and consists of 100 or more units. Recent sales of model match units, if available, must be utilized in the appraisal report
  - If comparable sales from within the subject’s project are not available, appraiser must provide explanation

## 8.23 Newer Projects

- 50% of the total units in the project or subject’s phase must be sold and conveyed to the unit owners AND at least 50% of the units must be owner occupied
- Project or subject’s legal phase along with other development phases must be complete. All common elements in the project or legal phase must be 100% complete
- Project may be subject to additional phasing
- FNMA PERS approval or copy of the HOA budget required
- The project developer may be in control of the condominium association provided the Master Agreement allows for the homeowners to take control upon either a predetermined percentage of unit sales or within a defined time frame
- Appraisal Comparable sales must include at a minimum:
  - One (1) from inside the project; and
  - Two (2) from outside the project





## 8.24 Condotels

- Projects where the units are individually owned, and the project offers hotel amenities
  - Hotel amenities may include on-site registration, housekeeping services, and other hospitality services
  - A project that offers rentals of units on a daily, weekly, or monthly basis
- 50% of the total units in the project or subject's phase must be sold or under contract
- Project or subject's legal phase along with other development phases must be complete. All common elements in the project or legal phase must be 100% complete
- Project may be subject to additional phasing
- Occupancy Type: Primary, Second Home, or Investment
- Investor concentration, within the subject project, may exceed established project criteria, up to 100%
- Gross rents (for all income doc types) reduced by 20% to reflect extraordinary costs (i.e., advertising, furnishings, cleaning) associated with operating short-term rental property
- Minimum square footage: 500
- Fully functioning kitchen – appliances to include a refrigerator and cooktop/stove/oven
- Separate bedroom required
- Minimum DSCR 1.0:1.0
- Florida Condominiums:
  - Condominium units in the state of Florida, if the project is over 30 years old (or 25 years if within 3 miles of the coast), a structural inspection is required for projects greater than 5 stories
  - The inspection needs to address items that substantially conform to the definition of a milestone inspection as defined in Florida statute 553.899
    - Inspection must confirm there are no conditions severe enough to affect the safety, soundness, structural integrity, or habitability of the improvements
  - Projects with an unacceptable or no inspection are ineligible

### 8.24.1 Funnel Cake Condotel Overlays

- Vacation rental projects will be considered as a non-warrantable condominium project on a case-by-case basis. True Condotels with onsite reservation desks are prohibited.
- The following requirements apply:
- Minimum square footage for unit is 600 square feet.
- Unit must contain a full-size kitchen including a minimum of a sink, refrigerator, stove, and dishwasher.
- Bedroom(s) are separate from the main living area.
- Project may include a welcome desk, concierge service, daily cleaning services, and allow rentals of units on a daily or short-term basis.
- Any project with one or more of the following characteristics is ineligible:
  - Projects marketed, operated, or managed as a hotel, motel, or similar hospitality entity.
  - Project has a legal or common name that contains hotel or motel.
  - Project is a conversion of a hotel.
  - Project is subject to rental-pooling.
  - Project allows fractional ownership.
  - Project is primarily transient in nature.



## 8.25 Condominium Insurance Requirements

Project to meet all Fannie Mae® insurance requirements for property, liability, and fidelity coverage

- The HOI Policy must be effective for at least 60 days after the date of funding. Evidence of Insurance can be provided in one of the following forms:
  - Policy
  - Certificate of Insurance
  - Insurance Binder
- Evidence of Insurance Requirements:
  - Names of the borrowers to reflect same name as on the Note/Security Instrument
  - Property address matches the Note/Security Instrument
  - For primary residence loans, mailing address is the same as property address
  - Policy Number
  - Loan Number
  - Name of insurance company
  - Insurance agent information
- Master Insurance
  - Master property insurance policies are required for the common elements and residential structures unless the condo project requires individual property insurance policies for each unit
  - Master insurance policy must provide for claims to be settled on a replacement cost basis
  - Property insurance policies that provide for claims to be settled on an actual cash value basis are not acceptable
  - Policies that limit, depreciate, reduce, or otherwise settle losses at anything other than a replacement cost basis are also unacceptable
  - Master liability of at least \$1,000,000 is required per occurrence
- Fidelity or Employee Dishonestly Insurance
  - For condominium projects consisting of more than 20 units, fidelity insurance coverage equaling at least the sum of three months of assessments on all units in the project is required
- HO-6
  - Borrowers must carry HO6 coverage for replacement of such items as flooring, wall covering, cabinets, fixtures, built-ins, and any improvements made to the unit
  - If the master or blanket policy does not provide interior unit coverage (replacement of improvements and betterment coverage to cover any improvements that the borrower may have made) the borrower must obtain an HO-6 Policy or “walls-in” coverage
  - The HO-6 insurance policy must provide coverage in an amount as established by the HO-6 insurer
- Deductible
  - The maximum deductible amount must be no greater than 10% of the face amount of the policy
- Flood Insurance
  - The condominium homeowners’ owners must obtain an NFIP Residential Condominium Building Association Policy (RCBAP) with the following coverage:



- Building Coverage must equal the lesser of:
  - 100% of the insurable value (replacement cost) of the building, including amounts to repair or replace the foundation and its supporting structure); or
  - The total number of units in the condominium building times \$250,000
- Contents Coverage must equal the lesser of:
  - 100% of the insurable value of all contents (including machinery and equipment that are not part of the building) that are owned in common by the association members; or
  - The maximum amount of contents coverage sold by the NFIP for a condominium building
- Flood insurance escrows may never be waived

## 8.26 Hazard Insurance

- Property insurance for loans must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement
- A declaration page is required prior to closing for all loans as proof of insurance
- On all refinance transactions, if the coverage termination date is within 60 days of closing, evidence of continuing coverage is required
- A loss payable endorsement is required for all loan transactions
- The coverage must provide for claims to be settled on a replacement cost basis
- Property insurance policies that provide for claims to be settled on an actual cash value basis are not acceptable
- Policies that limit, depreciate, reduce, or otherwise settle losses at anything other than replacement cost basis are also unacceptable
- Extended coverage must include, at a minimum: wind, civil commotion (including riots), smoke, hail, and damage caused by aircraft, vehicle, or explosion
- Policies that limit or exclude from coverage (in whole or in part) windstorm, hurricane, hail damage, or any other perils that normally are included under an extended coverage endorsement are not acceptable
- Borrowers may not obtain property insurance policies that include such limitations or exclusions unless they are able to obtain a separate policy or endorsement from another commercial insurer that provides adequate coverage for the limited or excluded peril, or from an insurance pool that the state has established to cover the limitations or exclusions
- The hazard insurance coverage should be equal to the lesser of:
  - Replacement Cost Estimator
    - Provided from the property insurer, or
    - Provided from a 3rd party source (e.g., CoreLogic)
  - Estimated cost to replace the dwelling from a recent appraisal, if provided
  - The unpaid principal balance of the mortgage(s)
- The maximum deductible amount must be no greater than 5% of the face amount of the policy



## 9 Multifamily Collateral

### 9.1 Multifamily 5-10 Units

- Minimum DSCR  $\geq 1.00$
- Vacant Unit(s) – Use 75% of market rents
  - Maximum 2 vacant units allowed
- Loan amounts  $\geq \$2,000,000$  require DSCR  $\geq 1.00$  and Debt Yield of 9% or greater (Net operating income/Loan amount = 9% or greater)
- Leased – Use lower of Estimated market rent or lease agreement
- Reduce qualifying rents by any management fee reflected on appraisal report
- Copies of any existing leases must be provided (Purchase and Refinance transactions)
- If the lease has been converted to month-to-month, then provide the most recent two (2) months proof of receipt to evidence continuance of lease
- Short-term rental use/income not eligible
- Neither the Borrower(s) nor the borrower’s immediate family shall at any time occupy the property
- Minimum 6 months reserves (12 months for FN)
- A multifamily property cannot be located on rural or agricultural zoning

### 9.2 Borrower Experience (Multifamily 5-10 Units)

- Experienced Investors only, borrower must have a history of owning and managing commercial or non-owner occupied residential real estate for at least 1 year in the last 3 years
- First time investors are not eligible

### 9.3 Eligible Property (Multifamily 5-10 Units)

- Residential unit(s) not permitted to be occupied by the borrower or the borrower’s immediate family
- Residential 5 – 10 Units (Max 2-acres)

### 9.4 Property Condition (Multifamily 5-10 Units)

- No Fair or poor ratings
- No environmental issues
- No health or safety issues (As noted by appraiser, i.e., broken windows, stairs)
- No excessive deferred maintenance that could become a health or safety issue for tenants
- No structural deferred maintenance, (i.e., Foundation, roof, electrical, plumbing)

### 9.5 Appraisal Attachments (Multifamily 5-10 Units)

- Rent Roll
- Income and Expense Statement
- Photos of subject including exterior/interior and street scene
- Aerial photo
- Sketch or floor plan of typical units



- Map
- Appraiser qualifications

## 10 Title Insurance

### 10.1 Title Insurance Requirements

- Each loan requires coverage provided by American Land Title Association (ALTA) or an equivalent association
- Either a Standard or Short Form Policy is acceptable
- Eligible title insurance must reflect the following:
  - The effective date of the commitment should be dated within 120 days of the date the Note is signed
    - If the date exceeds 120 days, the title company must update the commitment with either gap coverage or an updated commitment
    - **Note:** Texas loans must be within 90 days
  - Title insurance is required, the amount of the policy must be the same as the amount of the loan
  - All title vesting must be reviewed to insure it is as it appears on the application
  - All title holders are required to authorize the mortgage transaction which is accomplished by requiring all non- applicant title holders to sign certain closing documents
  - When title insurance is required on a property that is held in trust, the trust agreement must be reviewed and approved by the title company and Seller's underwriters
  - For a purchase loan, the vesting will state the seller's name(s) and should match the purchase contract. A deed transferring title will be required at closing
  - The Legal Description for the property should appear as it does on the appraisal and the application
  - The tile report must contain the entire legal description and may be identified by lot and block or metes and bounds description
  - The original title commitment should be countersigned by an authorized person from the title company
  - Title report should show the appropriate lien position. It will also show if there are any exceptions listed on the commitment
  - Outstanding mortgages on the subject property are also listed on the preliminary title report. Any additional mortgages must be addressed, paid-off and released at or prior to closing the loan. If any liens are to remain open, they must meet subordination guides
  - Liens and Judgments - Any liens (federal tax liens, mechanic's liens, etc.) or judgements must be paid-off at or prior to closing. Judgments that belong to another person or of a similar name may appear on the preliminary title report. In these instances, the applicant must sign an affidavit at closing, to satisfy the title company, which states they are not the person(s) named in the judgement(s). These judgments should not be on the final title policy. Solar liens are to be subordinated or paid off. HERO liens must be paid



- If taxes on the subject property are due and payable within 30 days but the county or city will not accept payment yet, then an escrow account is required to be set up by the title company to avoid any exceptions on the final title policy
- Easements are rights that a person has on the property/land of another person. Examples of easements are public utility easements, mineral rights, beach rights and riparian rights. These will not affect our lien position and can remain as exceptions on the title policy
- Encroachment is construction on the property of another, i.e., wall, fence, or a driveway. Encroachments listed on the preliminary title report can remain as an exception on the final title policy if the title company will insure against loss or damage caused by the enforced removal of the real property that is encroaching onto the easement. However, if the title company will not provide insurance, then the encroachment must be reviewed by Seller’s underwriter to determine if this will materially affect the value of the property/improvements or our security interest
- Surveys - All survey exceptions must be cleared on all loan products
- Lis Pendens - A legal notice that is recorded to show any pending litigation relating to the property. Anyone that is acquiring an interest in the property after the date of the notice may be bound by the outcome. All Lis Pendens are to be removed or the application will be denied
- Agreements such as private well and septic, private roads and shared driveways also require affirmative language and can remain as an exception on the title unless they relate to a public utility. Private well agreements need to be reviewed to determine whether the well is on the subject property or the rights to the well will be transferred with the title to the property

## 11 Miscellaneous

### 11.1 Age of Documents Requirements

- The following documents may not be more than 90 days old at closing (the date the Note is signed):
  - Income documents/paystubs
  - Mortgage/rental verification
  - Asset documents/bank statements
  - Credit Report
- The following documents may not be more than 120 days old at closing (the date the Note is signed):
  - Title Commitment/Preliminary Report/Binder/O&E
- Appraisal report – Please see section “Appraisal Age”

Any credit review documents exceeding these timeframes must be updated

### 11.2 Fraud Report

- All loans must be submitted to an automated fraud and data check tool (e.g., Fraud Guard, DataVerify, etc.)
- Transaction participants must be included in the fraud report as follows: Borrowers/Guarantors, Property Sellers, Brokers, Loan Officers, Appraisers, Real Estate Agents, Settlement Agents



- A copy of the findings report must be provided in the loan file along with any documentation resolving any deficiencies or red flags noted

### 11.3 OFAC and Watchlist Search

- Provide documentation to confirm borrowers, entities as borrower, sellers, realtors, settlement company/agent, appraiser and appraisal company were ran against these lists
- For refinances, the borrowers, entities as borrower, settlement company/agent, appraiser and appraisal company should be included in the search

### 11.4 Escrows

- Escrows for taxes and insurance will be required for all HPMLs (High Price Mortgage Loans) that are primary residences
- Escrows are required for LTV's greater than 80%
- Flood Insurance must be escrowed