



# DSCR LOAN ELIGIBILITY GUIDELINES

Version 3.0

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## 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%
  - In the event, that the property is not tenant occupied, the purchaser may bring in their own tenant and use the new lease to qualify up to 120% higher than the 1007/1025 market rent.
    - Must document security deposit and first months rent before loan closing.
- 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 current lease (from the seller) is greater than 20%, the higher Lease amount may be used with 2 months current proof of receipt (from the seller) of the higher rental income
- A copy of the lease is not required if the appraiser lists the rent amount for the subject on Form 1007/1025. Otherwise, a copy of the lease is required.

#### 3.2 Purchase Qualification for Short Term Rental

- When short-term rental income is documented using multiple sources, the lowest source of monthly income is to be utilized for calculating DSCR.
- Refer to the program matrix for any LTV restrictions applicable to short term rental
- Any of the following methods may be used to determine gross monthly rental income:
  - A 1007 or 1025 Comparable Rent Schedule survey prepared by the appraiser reflecting long-term or short-term market rents.
    - If long-term rent is utilized, no expense factor is to be applied.
    - If short-term rent is utilized, appraiser must indicate an occupancy/vacancy factor, otherwise a 20% factor will be applied.



- An alternative market rent analysis similar to FNMA Form 1007/1025 is allowed, subject to the following:
  - Analysis must be completed pursuant to the lender's appraisal management process.
  - Must be completed by a licensed appraiser.
  - Must include daily rental rate and occupancy percentage.
- The most recent 12-month rental history statement from the 3rd party rental/management service.
  - The statement must identify the subject property/unit, rents collected for the previous 12-months, and all vendor management fees. The qualifying rental income must be net of all vendor or management fees.
- The most recent 12-month bank statements from the borrower evidencing short term rental deposits. Borrower must provide rental records for the subject property to support monthly deposits.
- AIRDNA ([www.Airdna.co](http://www.Airdna.co)) Rentalizer/Property Earning Potential Report accessed using the Explore Short-Term Rental Data, must meet the following requirements:
  - Rentalizer (Property Earning Potential Report)
    - Only allowed for purchase transaction.
    - Gross Rents equal the revenue projection from the Property Earning Potential Report.
      - Revenue projection equals the average daily rental rate times the occupancy rate.
    - Forecast Period must cover 12-months and dated 90-days within the Note date.
    - Must have three (3) comparable properties similar in size, room count, amenities, availability, and occupancy.
    - Maximum occupancy limited to 2 individuals per bedroom.
    - Market score must be 60 or greater as reflected on the Property Earning Potential Report.

### 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%
  - In the event, that the property is not tenant occupied, the borrower may bring in a new tenant and use the new lease to qualify up to 120% higher than the 1007/1025 market rent.
    - Must document security deposit and first months rent before loan closing.
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    - Analysis must be completed pursuant to the lender's appraisal management process.
    - Must be completed by a licensed appraiser.
    - Must include daily rental rate and occupancy percentage.
  - The most recent 12-month rental history statement from the 3rd party rental/management service.
    - The statement must identify the subject property/unit, rents collected for the previous 12-months, and all vendor management fees. The qualifying rental income must be net of all vendor or management fees.
  - The most recent 12-month bank statements from the borrower evidencing short term rental deposits. Borrower must provide rental records for the subject property to support monthly deposits.
- Refer to the program matrix for any LTV restrictions applicable to 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

### 3.6 Additional Requirements

- Additional requirements that must be met when utilizing DSCR Investment Programs are:
  - 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





### 3.7 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

### 3.8 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
- Cash-out
  - If less than 0.8 DSCR, reduce LTV by 5%
- FTHB must have 12 months housing history verified by a VOR (Verification of Rent)

## 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).
      - 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
    - Documents must be current at the time of the note date.
    - If Visa has expired, a valid USCIS Form I-797 confirming submitted application to renew.
  - EAD Card
    - Documents must be current at the time of the note date.
    - If EAD card is expired at the time of the note date, 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.

- This does not apply to ITIN borrowers.

## 4.2 Borrower/Guarantor Experience

Underwriter to determine based off the full loan application, the level of experience the borrower has. If more than one applicant, the highest level of experience will be used to determine investor experience. Only one level of experience is to be used. For example, a FTHB does not need to meet First Time Investor requirements.

### 4.2.1 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)



#### 4.2.2 First Time Investor

- First Time Investor is a borrower/guarantor not meeting the Experienced Investor definition
- First Time Investor can not be a first time home buyer.
- Borrower/guarantor must currently own a primary residence or have a documented rental history for at least one (1) year
- Borrower/guarantor must provide a total of twelve (12) months of verifiable housing payment history, which may be met by a combination of VOM and/or VOR.
  - Free and clear primary residence is automatically given consideration.
  - Rent Free borrowers who have owned the subject property for less than 12 months are automatically given consideration.
- Maximum LTV 80%
- Cash-out transactions eligible

#### 4.2.3 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

### 4.3 Guarantor(s) Documentation

- Personal Guarantee only required if lending to a business. When lending to an individual who is only vesting in a business, there is no personal guarantee needed.
- 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	C11	An alien paroled into the United States in the public interest or temporarily for emergency reasons
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

## 4.6 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 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

### 4.6.2 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

### **4.6.3 Foreign National Credit Requirements**

A U.S. credit report should be obtained for each Foreign National borrower with a valid Social Security Number. The credit report should provide merged credit information from the 3 major national credit repositories.

For borrowers without a valid Social Security Number, an Individual Taxpayer Identification Number (ITIN) is also allowed. An ITIN is acceptable if the borrower has the ITIN for purposes of reporting taxes from passive income sources only and is not employed in the U.S. A traditional U.S. credit report is not required for borrowers without a valid SSN.

Foreign National borrowers who do not have an SSN or ITIN may still proceed under the Foreign National Program. The URLA should be updated with 999-99-9999 in the SSN field. All other program requirements still apply.

#### **4.6.3.1 *Qualifying U.S Credit – Foreign National***

The Qualifying U.S. Credit designation refers to non-U.S. citizen borrowers who meet Standard Tradelines in Tradeline Requirements.

#### **4.6.3.2 *Qualifying Foreign Credit – Foreign National***

For Foreign National borrowers without a Qualifying U.S Credit report, the following is applicable:

- An international credit report; or
- An original credit reference letter from an internationally known financial institution. The reference letter does not need to include details or payment histories of debt obligations located outside of the U.S.; or
- A bank statement documenting a foreign financial banking relationship for the past 60-days may be utilized in this section.

### **4.6.4 Foreign National Housing History**

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

### **4.6.5 Automatic Payment Authorization (ACH)**

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

### **4.6.6 Reserves for Foreign National**

- See Matrix for program specific



#### **4.6.7 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.

### **4.7 Eligible Title Vesting and Ownership**

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

- Individuals
- Joint Tenants
- Tenants in Common
- Inter-Vivos Revocable Trust
- Limited Liability Company (LLC)
- Limited and General Partnerships
- Corporations

#### **4.7.2 Business Entity Vesting**

Ownership or title vesting in the name of a U.S. domestic LLC, partnership, or corporation (collectively 'Entity') is acceptable for business purpose investment property transactions. Borrowing Entities are permitted only under the DSCR program. See the DSCR Program and Borrowing Entity requirements.

To vest ownership in an Entity but close in the name of a natural person, the following requirements must be met:

- Business purpose and activities are limited to ownership and management of real estate.
- Entity limited to a maximum of 4 owners (aka members, partners, or shareholders).
- A minimum of 25% of the Entity ownership must be represented as borrowers on the loan, each completing a 1003 as applicants.
- The loan application, credit report, income (if applicable), and assets for each borrowing Entity owner will be used to determine qualification and pricing.



The following Entity documentation must be provided:

- Entity Articles of Organization, Partnership, and Operating Agreements (if applicable)
- Employer Identification Number (EIN) Verification Form
- Certificate of Good Standing
- Certificate of Authorization for the person executing all documents on behalf of the Entity
- Entity documentation required for both the state of entity formation and state of the subject property, when they differ.

Documents must be completed and signed by each individual applicant (in their capacity as an individual only) that is an owner of the vesting Entity, as follows:

- Business Purpose & Occupancy Affidavit – signed by each applicant Entity owner.
- Loan Application (1003) – Completed and signed by each applicant Entity owner represented. 1003 section labeled “Title will be held in what Name(s)” should be completed with only the Entity name.
- Disclosures (GFE, TIL, Notice of Intent to Proceed, Servicing Disclosure, etc.) – completed and signed by each applicant Entity owner.
- Closing Disclosure – completed and signed by each applicant Entity owner.
- Other Closing Documents (Final TIL, Business Loan Agreement, etc.) – completed by Entity owner applicant.
- Note – signed by each applicant Entity owner represented.
- Deed of Trust/Mortgage and all attached Riders – must be completed by the authorized owner(s) of the Entity who can legally sign and bind the Entity that is the vested owner of the subject property.

### **4.7.3 Borrowing Entities (Lending to the Entity)**

Borrowing Entities in the form of a U.S. domestic Limited Liability Company (hereafter referred to as Borrowing Entity or borrower) are allowed under the DSCR Program. A Personal Guarantor is also required. See Personal Guarantors for complete requirements.

The business purpose and activities of the Borrowing Entity are limited to ownership and management of real estate, and ownership is limited to a maximum of 4 owners (aka members, partners, or shareholders).

Layered LLCs with multiple members/managers are eligible. See Layered LLCs.

The following documentation is required for each Borrowing Entity:

- Entity Articles of Organization, Partnership, and Operating Agreements (if applicable)
- Employer Identification Number (EIN) Verification Form



- Certificate of Good Standing
- Certificate of Authorization for the person executing all documents on behalf of the Entity
- Entity documentation required for both the state of entity formation and state of the subject property, when they differ.

Documents must be completed and signed by an authorized member of Entity, as follows:

- Business Purpose & Occupancy Affidavit
- Loan Application (1003)
- Closing Disclosure
- Note
- Deed of Trust/Mortgage and all attached Riders – must be completed by the authorized owner(s) of the Entity who can legally sign and bind the Entity that is the vested owner of the subject property.
- Guaranty- Must be completed and signed by member representing at least 51% cumulative ownership of the entity (including the borrower's % of interest).

#### **4.7.4 Personal Guarantors**

Personal guarantees must be provided by member(s)/manager(s) representing at least 51% cumulative ownership of the entity. (including the borrower)

At least one Personal Guarantor is required, if lending to the entity.

Personal Guarantors must meet the credit requirements outlined in 6 Credit (DSCR) and 4 Credit (ALT DOC) when lending to the Entity. The credit report for the Personal Guarantor will be used to determine qualification and pricing.

References to “borrowers” in 7 Asset Analysis apply to Personal Guarantors when the borrower is a Borrowing Entity. (DSCR only)

#### **Ineligible Guarantors**

The following individuals are not eligible to be Personal Guarantors:

- Individuals with diplomatic immunity or otherwise excluded from U.S. jurisdiction
- Residents of any country not permitted to transact business with US companies are ineligible (as determined by any U.S. government authority)
- Trusts or Land Trusts
- Individuals less than 18 years old

#### **4.7.5 Layered LLCs**

Layered LLCs with multiple members/managers are eligible as Borrowing Entities when the following requirements are met:



- Layered entities are permitted up to two (2) layers.
- Entities layered with a trust are NOT eligible.
- Personal Guarantor for transaction must own at least 51% of the Borrowing Entity LLC and all subsequent ascending LLCs making up the overall ownership structure if lending to the entity.
- Personal Guarantor must have signing rights for Borrowing Entity LLC and all subsequent ascending LLCs making up the overall ownership structure.
- LLC documentation listed in Borrowing Entities must be received for all ascending LLCs making up the overall ownership structure. Note: Certificate of Good Standing is required from the state where the LLC was formed and for all and all subsequent ascending LLCs.

## 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

### 5.2 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
  - Cheese Cake Only: Max cash back of the greater of 1% of the new loan amount or \$2,000
  - 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 3 months (note to note) , the new mortgage is not eligible as a Rate/Term and must proceed as a cash-out refinance.

### 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

### 5.4 Delayed Financing

- Delayed purchase financing is eligible when a property was purchased by a borrower for cash within 90 days of the note date
  - 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 Non-Arm's Length Transaction

- Non-arm's length transactions are purchase transactions in which there is a relationship or business affiliation between the seller and the buyer of the property
- A non-exclusive list of examples of non-arm's length transactions are:
  - Relatives: defined by blood, marriage, stepchild, adoption, or legal guardianship
  - Buyer and seller are related or associated in business
  - Developer and buyer are related or associated in business
  - Real Estate Brokers/Agents
  - Employee/Employer
- Proof of non-default on any existing mortgage(s) is required
  - Can be provided by one of the following: VOM, Most recent mortgage statement, payoff demand not exceeding 1 months interest.
- A Letter of Explanation regarding the relationship between the parties is required

## 5.6 Subordinate Financing

- Not permitted with the exception of Solar. If solar is being subordinated, the payment must be factored into the DSCR ratio.

## 5.7 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

## 5.8 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

## 5.9 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

## 5.10 Ineligible Transactions

- Assumable
- Construction to Permanent
- Builder Bailout
- Conversion Loans
- Lease Options/Rent-to-Own
- Land Contracts
- 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
- Past Due Accounts must be brought current

## 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

## 6.4 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 unless they are title impacting.

## 6.5 Significant Adverse Credit Events including Forbearance, Deferred Payments, Modifications

- Borrower cannot currently be in a forbearance plan.
- Refer to Matrix for eligibility for credit events (Bankruptcy, Foreclosure, Short sale/Deed-in-Lieu/Modifications)
- A mortgage modification resulting in any of the attributes listed below is subject to Housing Event seasoning referred to in the matrix for the applicable program
  - Forgiveness of a portion of principal and/or interest on either the first or second mortgage
  - Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness
  - Conversion of any portion of the original mortgage debt to a "soft" subordinate mortgage
  - Conversion of any portion of the original mortgage debt from secured to unsecured.

Modifications involving changes to the interest rate, term of the loan, or amortization schedule are not covered under this section. These modifications are solely subject to meeting the required payment history criteria without the need for Housing Event seasoning.



## 6.6 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

## 6.7 Housing History

Acceptable housing history requires evidence that a borrower has made a housing payment for at least the last 12 months whereby that payment history meets the requirements of the CAKE DSCR program. Housing history for the DSCR Doc type is limited to verifying 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). Verifications dated within 30 days of application do not require to be updated unless more than 60 days at time of Note date. If a borrower is renting their primary residence, a VOR from the landlord is required with no additional documentation (e.g. cancelled checks not required).

- Properties owned free and clear are considered 0x30 for grading purposes for each month the property has been owned free and clear (e.g. a property owned free and clear for the last 12 months satisfies the housing history requirement).
- Any housing event 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. Any such mortgage that is reporting to the credit bureaus is subject to the housing rating required per the matrix.

Refer to matrix for mortgage/rental rating requirements.

### 6.7.1 Rolling Delinquency

Rolling delinquencies are considered for 30 days late up to six (6) lates are one (1) event. Above thirty (30) days late, each late is an event.

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

- Borrowers who own their primary residence or any other property 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 any REOs with acceptable most recent 12 month mortgage financing history within last 3 years.

## 6.9 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 if over the age of 59 ½. If under the age of 59 ½ only 50% may be considered. Terms of withdrawal are not required.
  - 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 the business contributing the closing funds. Verification of business deposit accounts such as checking, savings, certificate of deposit, and money market accounts must include the following documentation:
      - Copy of the borrower's one (1) most recent bank statement for Business Purpose loans – the account(s) in which the funds for the down payment are to be withdrawn.
      - If the borrower owns less than 100% of the business and intends to use funds exceeding their ownership percentage, a signed letter from the remaining business owner(s) is required, granting explicit access to the additional funds.
  - 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/VOD completed by the verifying financial institution (FNMA Form 1006) or equivalent
    - 2 month average not required
  - 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.
- 100% gift allowed
- Gift may be used towards down payment, closing cost, reserves and pay off debt
- Gift of equity is allowed for non-arms length transaction only.
- Allowed on Purchase, Rate-and-Term, Cash-out transactions

## 7.3 Reserves

- Reserve requirements are waived for Rate-And-Term Refinance transactions when the transaction results in a reduction to the monthly principal and interest payment by 10% or greater
  - For an Interest Only loan, the reduction is based on the fully amortized payment used for loan qualification
- 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
- 5-10 Unit Properties - FHLMC Form 71A, or Narrative report may be used to appraise 5+ residential properties

### 8.1.1 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

### 8.1.2 Second Appraisals

- Loan amounts equal to or greater than \$2,000,000 will require a second appraisal.

### 8.1.3 Appraisal Review Requirements

- An appraisal review product is required on every loan file unless a second appraisal is obtained. The appraisal review product should provide an “as is” value for the subject property (the “Appraisal Review Value”) as of the date of the subject loan transaction
- The following review products are eligible when the primary valuation is a full appraisal:
  - Collateral Underwriter® (CU®) or Loan Collateral Advisor® (LCA)
    - An eligible score is 2.5 or less
    - The file must include a copy of the Submission Summary Report (SSR). (Only one score required, if both scores (CU & LCA) provided, both required to be 2.5 or less)
    - If the score exceeds 2.5 or indeterminate/no score, the file must include either an AVM, enhanced desk review, field review, or second appraisal (in this order)
    - An enhanced desk review product from one of the following choices:
      - CDA from Clear Capital
      - ARA from Computershare
  - If the AVM or enhanced desk review reflects a value more than 10% below the appraised value or cannot provide a validation, the file must include either a field review or a second appraisal



- These may not be from the same appraiser or appraisal company as the original report but may be ordered from the same AMC (Appraisal Management Company)
  - AVM must include an FSD score within 90%.
- Loan amounts  $\geq$  \$2MM require 2 appraisals.

#### 8.1.4 Accessory Dwelling Unit (ADU)

- If the property contains an accessory unit, the property is eligible under the following conditions:
  - The total units + Accessory Units on the property may NOT exceed 4 units.
    - Acceptable Examples: A 3 Unit Triplex + 1 ADU, a 2 Unit Duplex + 2 ADU's, and/or SFR 1 Unit + 3 ADU's
  - 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
  - A copy of the lease is not required if the appraiser lists the rent amount for the subject on Form 1007/1025. Otherwise, a copy of the lease is required.
    - Purchase
    - 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.

#### 8.1.5 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

#### 8.1.6 Transferred Appraisals

- Appraisal transfers are allowed when an appraisal was completed prior to the loan being closed.





- Transferred appraisals are generally acceptable provided they meet all applicable appraisal transfer requirements. However, transferred appraisals are not permitted under the following conditions:
  - If the appraised value reflects more than a 10% increase compared to the most recent prior sale price within the last 3 months, or
  - If the appraised value reflects more than a 20% increase compared to the most recent prior sale price within the last 6 months, AND the subject property was purchased within the last 6 months.
  - If the subject property is located in a declining market, as identified by the appraiser or internal risk flags
- The appraisal must be less than 60 days at time of transfer (120-days at closing and ordered through an Appraisal Management Company)
  - If appraisal is over 60 days old at time of transfer, then a current AVM or CDA is required to support the value.
  - 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

## 8.2 Escrow Holdbacks

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

## 8.3 Solar Panels

Must conform to FNMA guidelines.

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

## 8.4 Eligible Property Types

- Single Family Detached
- Single Family Attached
- 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)



- Properties that contain Accessory Dwelling Unit (ADU) refer to section 8.1.4

## 8.5 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)
- Mixed Use Properties
- 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

## 8.6 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

## 8.7 Declining Markets

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

## 8.8 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 HPML 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

## 8.9 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

## 8.10 Condominium Projects

UW Attestation and/or documentation clearly stating whether the project review completed resulted in condo being determined as warrantable or non-warrantable must be delivered with the file.

If an approved Fannie Mae's Condo Project Manager (CPM) report is provided, a lender HOA questionnaire is not required.



**California and Florida Only:** Condos require an attestation from the HOA regarding the required structural inspections. No further documentation is required.

### 8.10.1 Project Review Warrantable

FNMA eligible warrantable projects are permitted. Site Condos meeting the FNMA definition are eligible for single-family dwelling LTV/CLTV and the condo review is waived.

### 8.10.2 Project Review Non-Warrantable

Non-warrantable condominiums are eligible based on the following characteristics. See Credit Matrix for LTV restrictions.

CHARACTERISTIC	EXCEPTION CONSIDERATION
COMMERCIAL SPACE	Subject unit 100% residential. Commercial space in building project < 50%. Any commercial space must be “typical to the marketplace and have no negative impact on marketability. Commercial % determined by appraiser. Commercial entity cannot control HOA.
Completion Status	<p>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. At least 50% must be sold or under a bona-fide contract.</p> <p>If the LTV is <math>\leq 80\%</math> and Credit score is <math>\geq 680</math>, a minimum of 30% presale is allowed.</p>
Condotels	<ul style="list-style-type: none"><li>• For loan amounts, reserves, and LTV restrictions please refer to the corresponding matrix.</li><li>• Projects where the units are individually owned, and the project offers hotel amenities<ul style="list-style-type: none"><li>○ Hotel amenities may include on-site registration, housekeeping services, and other hospitality services</li><li>○ A project that offers rentals of units on a daily, weekly, or monthly basis</li></ul></li><li>• 50% of the total units in the project or subject’s phase must be sold or under contract</li><li>• 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</li><li>• Project may be subject to additional phasing</li><li>• Occupancy Type: Primary, Second Home, or Investment</li><li>• Investor concentration, within the subject project, may exceed established project criteria, up to 100%</li><li>• Gross rents (for all income doc types) reduced by 20% to reflect extraordinary costs (i.e., advertising, furnishings,</li></ul>



	<p>cleaning) associated with operating short-term rental property</p> <ul style="list-style-type: none"><li>• Minimum square footage: 500</li><li>• Fully functioning kitchen – appliances to include a refrigerator and cooktop/stove/oven</li><li>• Studios allowed</li></ul>
<b>Delinquent HOA Dues</b>	No more than 35% of the total units in the project may be 60 days or more past due on HOA fees.
<b>HOA Control</b>	The developer may be in control of the condominium association as long as the Master Agreement provides for the homeowners to take control upon either a predetermined percentage of unit sales or within a defined time period.
<b>HOA Reserves</b>	<p>Annual budget specifies a minimum of 5% allocation of replacement reserves. Budget/Replacement Reserve Study Requirements allowed subject to the following requirements:</p> <ul style="list-style-type: none"><li>• &lt; 3% allocation to replacement reserves, provide condo questionnaire completed by HOA, copy of annual budget and a reserve study completed within the previous 5 years by one of the following professionals (CPA, General Contractor, or Property Manager with 3 years experience)</li></ul>
<b>Investor Concentration</b>	Investor concentration, within the subject project, may exceed established project criteria, up to 100%
<b>Litigation</b>	<p>Pending litigation may be accepted on a case by case basis. Litigation that involves structural issues, health and safety issues or items that will impact the marketability of the project will not be accepted.</p>
<b>New Projects</b>	The project or the subject's legal phase along with other phases must be complete. All common areas in the project must be 100% complete. Minimum of 50% of units must be sold or under contract
<b>Single Entity Ownership</b>	Single entity ownership in project up to 50%

#### 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
  - A mortgagee clause naming Fannie Mae, CAKE Mortgage, or the servicer is not required for a master property insurance policy, an NFIP RCBAP, or equivalent master flood insurance policy issued by a private issuer.
- 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 H06 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

## 8.11 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
- 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
- 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.

## 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)



- Commercial Exterior Only Broker Price Opinion (BPO) required based upon sales approach unless two full appraisals are provided.
- If the value from the BPO is more than 10% below the appraised value then the value of the BPO is used for LTV purposes.
- 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 for Refinance transactions
  - On purchase transactions, copies of the leases are not required.
- 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 on refinance transactions.
  - On a purchase transaction, we do not need the 2 months receipt.
- 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 120 days old at closing (the date the Note is signed):
  - 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

Escrow waivers are permitted with the following:

- 0x30x12 housing/rental history
- 700 minimum FICO score
- ≤ 80% LTV, except as per state law
- ≤ \$2,000,000 loan amounts

Escrow waivers are not allowed for the following:

- Foreign National
- Properties located in flood zones
- HPML loans