



first community mortgage



a MORTGAGE

Boutique
a division of First Community Mortgage



FCM/AMB Non-QM Solutions Second Guidelines

Effective 12.15.2025

**CLOSED END SECOND (2ND) MATRIX**

Owner Occupied							
Loan Amount \$	Max DTI %	Credit Score	Full Doc 12mo or 24mo CLTV	Bank Statement 1099 12mo or 24mo CLTV	WVOE CLTV	P&L Only CLTV	
50,000 To 350,000	50%	720	90	90	85	80	
		700	90	85	80	75	
		680	85	80	75	70	
		660	80	75	70	65	
350,001 To 500,000	50%	720	90	85	80	75	
		700	85	80	75	70	
		680	80	75	70	65	
		660	75	65	65	60	
500,001 To 750,000	50%	720	80	80	75	70	
		700	80	75	70	65	
		680	75	65	65	60	
		660	70	60	60	55	
750,001 To 850,000	50%	720	75	75	n/a	n/a	
		700	70	70	n/a	n/a	
2 nd Home							
Loan Amount \$	Max DTI %	Credit Score	Full Doc 12mo or 24mo CLTV	Bank Statement 1099 12mo or 24mo CLTV	WVOE CLTV	P&L Only CLTV	
50,000 To 350,000	50%	720	80	80	75	70	
		700	80	75	70	65	
		680	75	70	65	60	
		660	70	60	60	55	
350,001 To 500,000	50%	720	80	75	70	65	
		700	80	70	65	60	
		680	70	65	60	55	
		660	65	60	55	50	
500,001 To 750,000	50%	720	75	70	65	60	
		700	70	65	60	55	
		680	65	55	55	50	
		660	60	50	50	45	
Non-Owner Occupied							
Loan Amount \$	Max DTI %	Credit Score	Full Doc 12mo or 24mo CLTV	Bank Statement 1099 12mo or 24mo CLTV	WVOE CLTV	P&L Only CLTV	DSCR Min 1.00 DSCR
50,000 To 350,000	50%	720	80	80	75	70	80
		700	80	75	70	65	75
		680	75	70	65	60	70
		660	70	60	60	55	n/a
350,001 To 500,000	50%	720	80	75	70	65	75
		700	80	70	65	60	70
		680	70	65	60	55	65
		660	65	60	55	50	n/a
500,001 To 750,000	50%	720	75	70	65	60	70
		700	70	65	60	55	65
		680	65	55	55	50	55
		660	60	50	50	45	n/a





DETAILS	00/2 nd	NOO						
Combined Lien Balance	X	X	Max Combined Lien Bal	2,000,000	3,000,000	3,500,000	4,000,000	5,000,000
			Max CLTV	90	85	80	75	60
Assets	X	X	• None required on stand alone CES					
Asset Depletion	X	X	• Eligible on stand-alone CES to augment qualifying income on all doc types except DSCR. Not allowed as a separate income doc type					
Appraisal Requirements	X	X	HPML			• Full Appraisal (1004, 1025, 1073)		
			Non-HPML	• Loan amount ≤\$400k		• AVM with a 90% Confidence Factor AND		
				• Loan Amount >\$400k		• Property Condition Inspection		
Recently Listed Properties	X	X	• Full Appraisal (1004, 1025, 1073)					
Borrowers – Eligible	X	X	• Properties listed for sale in the last 6 months are not eligible					
Borrowers – Ineligible	X	X	• US Citizen • Non-Permanent Resident Alien (with US Credit); Not eligible for DSCR transactions • Permanent Resident Alien					
Compliance	X	X	• Non-occupant co-borrowers; Foreign Nationals					
Prepayment Penalty (NOO Business Purpose Only)		X	• No Section 32 or state High Cost • Loans must comply with all applicable federal and state regulations • Fully documented Ability to Repay. • Higher-Priced Mortgage Loans (HPML) and Higher-Priced Covered Transactions (HPCT) are permitted subject to complying with all applicable regulatory requirements					
Credit Stand-Alone	X	X	• Prepayment penalties eligible on non-owner occupied business purpose loans where allowed by state. Prepayment penalty must be in compliance with the terms and limitations of the applicable state or federal law • Minimum 1 year prepayment penalty required on DSCR doc type where allowable by state.					
Credit Limited Credit	X		• 3 tradelines reporting for 12+ months or 2 tradelines reporting for 24+ months all with activity in the last 12 months. If borrower has 3 credit scores, the min tradeline requirements are met					
Credit Scores	X	X	• Does not meet tradeline requirements. Primary only ok with 0x30x12 mortgage reported on credit (No private party mortgages)					
Credit Event Seasoning	X	X	• Qualifying score is the lowest of 2 scores or middle of 3 scores from the primary income earner. DSCR loans qualifying using the lowest middle score of all borrowers. • Non-traditional credit ineligible.					
Derogatory Credit	X	X	• 48 months – Foreclosure, short-sale, deed in lieu, bankruptcy. No multiple events in last 7 years					
Housing Lates	X	X	• Open charge-offs or collections < \$1000 per occurrence ok. No delinquent tradelines at closing • Open Medical collections < \$1000 per occurrence ok.					
Ineligible Senior Liens	X	X	• Open charge-offs or collections < \$1000 per occurrence ok. No delinquent tradelines at closing • Open Medical collections < \$1000 per occurrence ok. • 0x30x12 On all mortgages for all borrowers. Minimum 12 months housing history required					
			• Loans in active forbearance or deferment are ineligible. Deferred balance from modifications > 12 months may remain open. • Negative amortization • Reverse mortgages • Balloon loans that the balloon payment comes during the amortization period					





DETAILS	00/2 nd	NOO	
			of the 2 nd lien.
Interest Only Senior Lien	X	X	<ul style="list-style-type: none"> Interest-Only senior liens acceptable when qualified at max 50% DTI Qualify 1st lien I/O on Fully Amortized payment on remaining term after I/O period.
Lien Position	X	X	<ul style="list-style-type: none"> 2nd Position Only
States	X		<ul style="list-style-type: none"> Texas Section 50(a)(6) Equity Cash-Out & Texas 50(a)(4) are ineligible with FCM
Senior Lien Payment Calc (ARM)	X	X	<ul style="list-style-type: none"> 1st lien ARMS with < 3 years fixed period remaining qualified on fully indexed payment.
Property Type	X	X	<ul style="list-style-type: none"> SFR max 10 acres / PUD / Condo-Warrantable max 75 CLTV OO, 70 CLTV NOO / 2-4 Unit max 75 CLTV OO, 70 CLTV NOO
Rural Property	X		<ul style="list-style-type: none"> Rural Primary to 80 CLTV, max 10 acres
Qualifying Payment	X	X	<ul style="list-style-type: none"> Qualifying ratios based on Full Note Rate
Title Report	X	X	<ul style="list-style-type: none"> ALTA, Jr ALTA, ALTA Lite, ALTA Short Form – Lenders Policy
Seasoning	X	X	<ul style="list-style-type: none"> > 6 months ownership seasoning no restrictions. ≤ 6 months ownership seasoning ineligible for refinance ≤ 6 months seasoning since previous refinance on either 1st lien or 2nd lien max 80 CLTV
Piggyback			<ul style="list-style-type: none"> Piggyback not allowed with FCM
Loan Eligibility Guidelines	X	X	<ul style="list-style-type: none"> Refer to Loan Eligibility Guidelines for details on topics not covered here

Products			Min Amt	Doc Type Option	Qual Rate	Amort Term	Balloon Term
Fixed Rate	Full Am	10 yr	50k	All	Note Rate	10 yr	-
		15 yr	50k			15 yr	-
		20 yr	50k			20 yr	-
		30 yr	50k			30 yr	-
	Balloon	30/15	200k			30 yr	15 yr
		40/15	200k			40 yr	15 yr

Documentation Options		Additional Program Requirements
Full Doc 2 Yr	Standard FNMA Documentation	<ul style="list-style-type: none"> Salaried: 2 years W2 and YTD paystub reflecting minimum 30 days earnings Self-Employed: 2 years tax returns, all schedules. YTD P&L or 3 months business bank statements to support continuance of tax return income.
Full Doc 1 Yr	W-2 (12mo) Tax Returns (12mo)	<ul style="list-style-type: none"> Salaried: 1 year most recent W2 and YTD paystub reflecting 30 days earnings Self-Employed: 1 year tax returns, all schedules. YTD P&L or 3 months business bank statements to support the continuance of tax return income
Bank Statement	Bank Statement (24mo, 12mo)	<ul style="list-style-type: none"> Personal & Business – Combined or Business (12mo or 24mo): <ul style="list-style-type: none"> At least one of the borrowers must be self-employed for at least 2 years (25% or greater ownership) Standard expense factors apply: 50% expense factor If business operates < standard expense factor, P&L or expense letter from CPA, CTEC (California Tax Education Council) or EA (Enrolled Agent) required Expense factor per the CPA/CTEC/EA letter must be reasonable Personal & Business Separated (12mo or 24mo): <ul style="list-style-type: none"> At least one of the borrowers must be self-employed for at least 2





Documentation Options		Additional Program Requirements
		years (25% or greater ownership) <ul style="list-style-type: none"> Personal used to qualify, 2 months business to show business cash flows in order to utilize 100% of business related deposits in personal account (no expense factor)
P & L Only	P&L (12mo) (CPA, CTEC, EA)	<ul style="list-style-type: none"> Self-employed (2yrs – 25% or greater ownership) P&L prepared by CPA, CTEC or EA - see guidelines for additional requirements Qualifying income based on the net income reflected on P&L statement (multiplied by borrower's ownership percentage) / 12 months
1099	1099 (12mo, 24mo)	<ul style="list-style-type: none"> 1099 plus either: Current check/check stub or bank statement showing deposits from each 1099 payor (10% expense factor applied) Qualifying income = 1099 gross – 10% expense factor. Current check stub or bank statement deposits must support amounts consistent with 1099 levels
WVOE	FNMA Form 1005	<ul style="list-style-type: none"> WVOE FNMA Form 1005 completed by HR, Payroll, Company Officer plus 2 mos personal bank statements supporting wages, or WVOE from online data source (Work Number, etc.) Borrowers employed by a family owned or managed business are ineligible for WVOE documentation program
DSCR	Debt Service Coverage	<ul style="list-style-type: none"> Stand-alone cash-out transactions only; Minimum 1.00 DSCR Ratio; Qualifying DSCR ratio based on Note Rate (PITIA); Non Perm Resident Aliens not allowed Short-Term Rental income accepted with 3rd party documentation of 12 months rents Long-Term Rental Income qualifies using the lower of the lease agreement or the 1007 (if available). Lease agreements required for all LTR transactions Minimum 1 year prepayment penalty required where allowable by state. Prepayment penalty must be in compliance with the terms and limitations of the applicable state or federal law

Introduction

Overview And Underwriting Philosophy

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

Underwriting Criteria

The Guidelines are intended to reference and supplement the Fannie Mae Seller Guide. For specific information concerning qualification requirements that are not referenced in this document, refer to the Fannie Mae Seller Guide. For specific loan characteristic and eligibility requirements related to LTV, FICO, DTI, etc., refer to the Matrix. Loans sold to FCM must meet the criteria of the current published Guidelines and Matrix of the loan application date





Ability-To-Repay (ATR)

FCM recommends the Ability-To-Repay Borrower Attestation or similar document be included with all loan files delivered for purchase.

Underwriting Documentation

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

CES Program and Requirements

CES Program Overview

The FCM/AMB Solutions Non-QM Second is a stand-alone.

See Matrix for details and program specific.

- The CES is designed for primary, second home and investment properties with flexibility in mortgage history, credit history, and/or payment and documentation options. This program offers expanded credit parameters for multiple borrower profiles utilizing standard and alternative document types.
 - Full Doc 1 or 2 Yrs: Standard FNMA Documentation
 - Alt Doc Bank Statements: 12, 24 Bank Statements
 - Alt Doc 1099: 1yr or 2yr 1099 Statement
 - Alt Doc WVOE: FNMA Form 1005
 - Alt Doc P&L Only: 12-month P&L Statement
 - DSCR: Investor DSCR (Debt Service Coverage Ratio)

Eligible CES Products

- Fully Amortizing Fixed Rate
 - Qualifying ratios are based on PITIA payment with the principal and interest payments amortized over the loan term.
 - 10, 15, 20, 30-year fixed rate
- Balloon Notes
 - 30/15, 40/15
- See matrix for limitations.

Ineligible Senior Liens

A copy of the most current 1st mortgage statement is required to determine eligibility. Statement date to be within 90 days of Note date. Additional 1st mortgage documentation may be required to provide sufficient data for underwriting.

- Loans in active forbearance or deferment. Deferred balances from modifications seasoned greater than 12 months may remain open. If seasoned less than or equal to 12 months, deferred balances must be paid through closing. Senior lien must be out of forbearance at time of application in order to be eligible.
- Loans with negative amortization.
- Reverse mortgages.
- Balloon loans that the balloon payment comes due during the amortization period of the 2nd loan.
- Mortgages not reporting on credit report (see Housing History)
- Private Party.





Interest Only Senior Liens

- Interest only senior liens are acceptable when qualified at a maximum DTI of 50%. Qualify I/O on fully-amortized payment on the remaining term after the I/O period.
- 1st lien ARMS with < 3 years fixed period remaining qualified on fully indexed payment.

Maximum Combined Liens

- The maximum combined 1st and 2nd liens is based on the loan amount. See matrix for limits.

Seasoning: Loan and Document

FCM will typically not purchase loans seasoned more than 90 days from the Note Date at the loan delivery date.

Age of documents from Note Date.

- Credit Documents: 120 Days
- Income Documents: 90 Days
- Asset Documents: 90 Days
- New AVM/Appraisal: 120 Days W i t h Re-Certification of Value: 365 Days Title Report: 120 Days

Seasoning: Property Listing

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

Note: DSCR CES loans with a prepayment penalty (where allowable by state) are eligible with no seasoning, so long as the subject property has been taken off the market prior to application date.

Seasoning: Ownership

- Properties owned less than six (6) months ineligible. Properties owned greater than six (6) months - no restrictions.

State and Federal High Cost Loans

- Not eligible for loan purchase.

Legal Documentation

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

Interest Credit

- Loans closed within the first ten (10) days of the month may reflect an interest credit to the borrower.

Assumability

- FCM/AMB Non-QM Solutions Second products are not assumable.

Escrows

- Closed-end 2nd loans with escrows are not eligible for purchase

Property Hazard insurance

Coverage Requirements

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

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





improvements

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

Flood Insurance

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

Flood Certificate

- Determination whether a subject property is in a flood zone must be established by a Flood Certificate provided by the Federal Emergency Management Agency (FEMA). Flood Cert from CoreLogic or ServiceLink is preferred. The appraisal report should also accurately reflect the flood zone.
- The flood insurance requirement can be waived if:
 - Subject property improvements are not in the area of Special Flood Hazard, even though part of the land is in Flood Zone A or V; or
 - Borrower obtains a letter from FEMA stating that its maps have been amended so that the subject property is no longer in an area of Special Flood Hazard

Minimum Flood Insurance Coverage

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

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

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

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

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

Prepayment Penalty

Prepayment penalties are only eligible for Closed-End Second (CES) loan transactions on non-owner and investment properties (business purpose only).

- DSCR CES loans require a minimum 1-year prepayment penalty where allowable by state.

For all other loan transactions (primary residence, second home, non-business purpose investment), prepayment penalties are prohibited.

Note: States may impose different definitions of points and fees, rate/APR, or prepayment penalties that apply under HOEPA. States may also use different triggers in each category for determining whether a loan will be a “high-cost mortgage” (or equivalent terms) under state law. Prepayment penalty must be in compliance with the terms and limitations of the applicable state or federal law.

Title Reports

The following are eligible title report types:

- ALTA
- Jr. ALTA
- ALTA Lite





- ALTA Short Form – Lender’s Policy

Subordinate Financing

- All existing subordinate liens must be satisfied at or prior to closing, with the exception of those solar liens addressed in Solar Liens Section (subject to CLTV limits).

CES Property Eligibility

Appraisals

Collateral evaluation requirements for the second mortgage program.

Appraisal Options

On purchase transactions, a copy of the appraisal with original pictures and any secondary valuation used on the 1st mortgage is acceptable.

Higher-Priced Mortgage Loan (HPML)

Primary and 2nd Homes:

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

HPML QM Safe Harbor or Rebuttable Presumption (Full Doc only)

Primary and 2nd Homes:

- Loan amounts < \$400,000 AVM with a 90% Confidence Factor and a Property Condition Inspection from:
 - Clear Capital
 - Collateral Analytics
 - CoreLogic
 - HouseCanary
 - Homegenius
 - Quantarium
 - Veros
- Full appraisal required when AVM has less than 90% Confidence Factor.
- Loan amounts > \$400,000
 - Full Appraisal (1004, 1025, 1073)
- Declining markets maximum 75% CLTV

Non-HPML

Primary/ 2nd Home/ Investment Property

- Loan amounts < \$400,000 AVM with a 90% Confidence Factor and a Property Condition Inspection from:
 - Clear Capital
 - Collateral Analytics
 - CoreLogic
 - HouseCanary
 - Homegenius
 - Quantarium
 - Veros
- Full appraisal required when AVM has less than 90% Confidence Factor.
- Loan amounts > \$400,000
 - Full Appraisal (1004, 1025, 1073)





- Declining markets:
 - Primary and 2nd Homes - Maximum 75% CLTV
 - Investment – Maximum 70% CLTV

Minimum Property Standards

Minimum property standards include but may not be limited to:

- 600 square feet.
- Property constructed for year-round use
- Permanently affixed continuous heat source
- Maximum deferred maintenance cannot exceed \$2,000
- No health or safety issues both internal or external

Eligible Property Types

- SFR, PUD, Townhome, Rowhome, Modular
- 2-4 Units
- Condos – Warrantable
- Rural – Primary, Maximum 10 acres. See matrix for CLTV.

Ineligible Property Types

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

Acreage Limitations

- Maximum 10 acres

Texas Section 50(a)(6) and 50(a)(4)

- Not eligible with FCM

State Ineligibility

- Loans categorized as NY Subprime

Title Vesting and Ownership

Ownership must be fee simple or leasehold





Acceptable forms of vesting are:

- Individuals
- Joint tenants
- Tenants in Common
- Inter Vivos Revocable Trust
- Business Entity – Investor properties only. With current vesting in: Limited Liability Company (LLC)

Inter Vivos Revocable Trust

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

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

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

Business Entity (Limited Liability Companies – LLC)

FCM does not currently allow vesting or closing in the name of Limited Partnership (LP), General Partnership, Corporations (Corp)

Vesting solely in the name of a business entity (LLC) is acceptable on investor properties only. FCM must ensure loans that are secured by properties vested in a business are solely business purpose loans for the purchase or refinance of an investment property.

For LLC's, loan application is allowed to remain in the name of the entity with a personal guaranty.

The following standards apply:

- All persons with >25% interest in the business entity ("Interested Persons") must apply for the loan and meet credit requirements
- Maximum of four (4) individual members/partners/shareholders. No entities or trusts as members, partners or shareholders.
- Persons who sign the note or a personal guaranty must sign an Occupancy Affidavit prior to closing.
- For DSCR Borrower(s) obtaining a refinance loan, the Borrower must execute the Business Purpose & Occupancy Affidavit
- Collateral documents must be signed as follows:





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

The following documentation must be provided:

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

Please refer to the “Closing in the Name of an LLC SOP” for further details

Leasehold Properties

- In areas where leasehold estates are commonly accepted and documented via the Appraisal, loans secured by leasehold estates are eligible for purchase. The mortgage must be secured by the property improvements and the borrower’s leasehold interest in the land. The leasehold estate and any improvements must constitute real property, be subject to the mortgage lien, and be insured by the lender’s title policy.
- Seller must provide documentation and Leaseholds must meet all FNMA eligibility requirements (i.e. term of lease).

Solar Liens

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

- Leased Solar Panels or Panels Under a Power Purchase Agreement
 - Requirements:
 - Copy of the lease or power purchase agreement
 - Power Purchase Agreement Liability:
 - Payment may be excluded from DTI when payment is based on energy produced only. If not the case, payments must be included as part of the DTI calculation
 - Lease Liability
 - Lease payments must be included in the DTI calculation
 - The value of the solar panels cannot be included in the appraised value
 - The lease liability should not be included as part of the CLTV calculation
 - UCC Filing:
 - Only the solar equipment may be mentioned as collateral for the UCC filing. If so, the UCC filing may remain on title.





- Title must provide a supplement that confirms the lien position of our new mortgage ahead of the UCC or financing statement filing
- The property must maintain access to an alternate source of electric power that meets local community standards
- The owner of the solar panels cannot be included as a loss payee on the property hazard insurance policy
- Since the borrower does not own the solar panels, any damage resulting from installation and malfunction is the responsibility of the equipment owner
- Purchased Solar Panels
 - Requirements:
 - UCC Fixture Filing
 - Copy of purchase agreement.
 - UCC fixture filing, credit report & preliminary title report
 - Appraiser may consider the solar panels as part of the value of the property
 - Financing balance must be included as part of the CLTV. Max CLTV as shown on the matrix cannot be exceeded
 - Monthly finance payments must be included in DTI calculation
 - UCC fixture filing must be subordinated or UCC must be terminated
 - Financing Statement on Title
 - Copy of purchase agreement.
 - Credit report & preliminary title report
 - Appraiser may not consider the solar panels as part of the value of the property
 - Financing balance may not be included as part of the CLTV
 - Monthly finance payments must be included in the DTI calculation
 - Title supplement must be obtained confirming our lien position
 - PACE/HERO
 - Existing PACE/HERO financing must be paid-in-full prior to or at closing

Limitations on Financed Properties

Primary and Second Homes

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

Investor Properties

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

Disaster Areas

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

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

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

Guidelines for disaster areas should be followed for 90 days from the disaster period end date or the date of the





event, whichever is later.

Declining Values

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

Condominiums

- Fannie Mae eligible condominium projects allowed.
- The seller may review and approve FNMA warrantable projects. Follow the review process required by Fannie Mae for Limited Review.
- Site Condos meeting the Fannie definition are eligible for single-family dwelling LTV/CLTV.

Transaction Types

Eligible Transactions

- Purchase
- Cash-Out

Cash-out Seasoning

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

Stand-Alone Cash-out

- Stand-alone loans are available for cash-out on Primary, Second Home or investor property. A letter of explanation regarding the use of loan funds must be provided for cash-out refinance transactions.

Prior Cash-Out Refinance Seasoning

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

Piggy-Back Purchase and Piggy-Back/Concurrent

- Not eligible with FCM

Cross Collateral

- Cross collateral loans transactions are not eligible

Non-Arm's Length

- Non-arm's length transactions ineligible.

Borrower Eligibility and Requirements

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

Fraud Report and Background Check

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





the report must be addressed by the seller. If the seller cannot electronically access the fraud report to clear high-level alerts within the fraud provider's system, an Underwriter's Certification from the seller is acceptable. The Certification must address each individual high alert and explain what actions were taken to satisfy the issues. It must be signed and dated by a member of the seller's underwriting staff or operations management personnel.

Non-Occupant Co-Borrowers

- Non-Occupant co-borrowers are ineligible.

First Time Homebuyers

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

Residency

U.S. Citizen

Eligible without guideline restrictions.

See full Loan Eligibility Guidelines for specifics on:

- Permanent Resident Alien
- Non-Permanent Resident Aliens (not eligible for DSCR transactions)

Ineligible Borrowers

The following borrowers are ineligible:

- Irrevocable Trust
- Land Trust
- Individual possessing diplomatic immunity or otherwise excluded from US jurisdiction.
- Any material parties (company or individual) to transaction listed on HUD's Limited Denial of Participation (LDP) list, the federal General Services Administrative (GSA) Excluded Party list or any other exclusionary list.
- Foreign Nationals.
- Borrowers without a valid Social Security Number.
- Borrowers who are party to a lawsuit

Credit

Credit Report

- A credit report is required for every borrower. All applicants must have a valid SSI number. Fannie Mae guidelines should be utilized for processing and documenting all required credit reports and determining borrower's credit eligibility.
- Borrower explanations are to be provided for any Disputed Tradelines with derogatory information reported in the last two years.
- For borrowers who have a security freeze on their credit, the security freeze must be removed and credit repulped.

Loan Integrity and Fraud Check

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





or red flags noted.

Credit Inquiries

- Lenders must inform borrowers that they are obligated to notify the lender of any new extension of credit, whether unsecured or secured, that takes place during the underwriting process and up to the consummation of the loan.
- For all inquiries within the most recent 90 days of the credit report date, a signed letter of explanation from the borrower or creditor is required to determine whether additional credit was granted as a result of the borrower's request. If new credit was extended, borrower must provide documentation on the current balance and payment; based on the verification of all new debt/liabilities, the borrower should be qualified with the additional monthly payment. If no credit was extended, borrower must state the purpose of the inquiry.

Credit Report Update

Seller is to confirm there are no new or higher debt obligations for the borrower by using a gap credit report, soft-pull or undisclosed credit monitoring. This type of report is required if Note date is greater than 30 days after the date of the credit report relied upon for underwriting. The gap credit report, soft-pull or final report for the undisclosed debt monitoring is to be dated within 30 days of the Note date.

This requirement does not apply to loans documented under DSCR.

When these reports are required, it becomes part of the Mortgage File and all payments/balances and DTI are to be updated. Based on the recalculated DTI, the mortgage loan would not be required to be re-underwritten if both of the following applies:

- The updated DTI ratio has not increased by 3% or higher, AND
- The final updated DTI does not exceed 45%

Housing History

Borrowers must have satisfactory mortgage and/or rent payment history in the three (3) years prior to loan application. All files must be documented with one of the following:

- Purchase – 12-month housing history consisting of mortgage reported on credit or VOR from management company. Combination of mortgage and rent history covering 12 months acceptable.
- Cash-out - 6 months current senior lien reporting on credit report, OR one of the following:
 - VOM from an institutional lender.
 - Legally inherited property supported by cancelled checks to senior lien

Consumer Credit

Consumer Credit History

- Applicants with current credit delinquencies are ineligible.
- 30-day charge accounts (e.g. Amex) can remain open if borrower has sufficient funds in reserve (cash-out funds included) to cover the balance.

Consumer Credit Charge-offs and Collections

- _Open charge-offs or collections < \$1,000 per occurrence are acceptable. Open medical collections < \$1,000 per occurrence are acceptable.

Consumer Credit Counseling Services

- Borrowers enrolled in credit counseling are ineligible.





Judgment or Liens

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

Income Tax Liens

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

Credit Event Seasoning

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

Credit Score

- The Representative Credit Score is to be used for the Credit Decision. A valid score requires one
- score from at least two (2) of the following agencies: Experian (FICO), Trans Union (Empirica), and Equifax (Beacon). Only scores from these agencies are acceptable.
- A borrowers' representative credit score is the lower of two (2) scores or the middle of three (3)
- scores.
- For loans with multiple borrowers:
 - The occupying borrower with the highest income is the primary borrower and their representative credit score is to be used. When borrowers are self-employed and have equal ownership of a business, the highest representative score of all borrowers is to be used.
- For DSCR CES loans, the lowest representative score of all borrowers is to be used.
- Minimum credit score for co-borrowers is 500.

Standard Tradeline Requirements

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

- At least three (3) tradelines reporting for a minimum of twelve (12) months with activity in the last 12 months; or,
- At least two (2) tradelines reporting for a minimum of twenty-four (24) months with activity in the last 12 months

On Primary residence only, borrowers who do not have the minimum tradelines are acceptable with a current mortgage history on their credit report reporting 0x30x12 (no private party mortgages).

Borrowers that have three (3) credit scores satisfy the minimum tradeline requirements.

Valid tradelines have the below characteristics:

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

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

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





- Short sales
- Pre-foreclosure sales

Obligations / Liabilities not appearing on Credit Report

Housing and Mortgage Related Obligations

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

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

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

Current Debt Obligations, Child Support, Alimony or Maintenance Obligations

- A lender may use a credit report to verify a borrower's current debt obligations, unless the lender
- has reason to know that the information on the report is inaccurate or disputed.
-
- Monthly alimony, child support or separate maintenance fees should be current at time of application and must be included in the borrower's DTI ratio. The file should contain supporting documentation as evidence of the obligation, such as a final divorce decree, property settlement agreement, signed legal separation agreement, or court order. If payments are past due, the borrower is ineligible.

Assets

Document Options

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

Income Documentation

Income Analysis

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

Income Worksheet

- Stand-alone loans using bank statement program must include Seller's income calculations
- Income analysis for borrowers with multiple businesses must show income/(loss) details separately, not in aggregate.

Employment and Income Verification

- For stand-alone loans, most recent two (2) years employment is required to be documented and verified for all income/documentation types unless otherwise noted by specific program requirements.
- If any borrower is no longer employed in the position disclosed on the Form 1003, loan will be ineligible





for purchase.

- A two-year employment history is required for the income to be considered stable and used for qualifying.
- When the borrower has less than a two-year history of receiving income, Seller must provide written analysis to justify the stability of the income used to qualify the Borrower.

Debt to Income Ratio / DTI

- Standard Debt-to-Income ("DTI") maximums as per Matrix. See limits to DTI on loans with Interest Only First Liens.
- DTI is calculated and reviewed for adherence to Fannie Mae guidelines and inclusion of all income and liability expenses.

Documentation Options

For stand-alone loans, full income documentation for wage earners and self-employed borrowers. Bank statement documentation for self-employed borrowers.

Full Income Documentation

Full Doc for Stand-Alone

Self-employed borrowers:

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

Wage/Salaried borrowers:

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

Other Requirements:

- A verbal VOE from each employer within 10-days of the note date for wage and salaried employees.
- For self-employed verify existence of business within 30-days of the note date with one of the following:
 - Letter from business tax professional.
 - On-line verification from regulatory agency or licensing bureau.
 - Certification verifying business existence through direct contact or internet search.

Other Miscellaneous Income

- Treatment of miscellaneous income sources follow FNMA guidelines.

Alternative Income Documentation: 12 or 24 months Bank Statements

Alt-Doc: 12 or 24 months Bank Statements

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

The Primary Borrower (greater than 50% of income) should be self-employed for at least 2 years (25% or greater ownership) to qualify for this program. If there is less than 2 years but more than 1 year of self-employment with the same business, the borrower may qualify if they can evidence at least:

- 2 years of previous employment in the same industry/line-of-work of the current business, OR
- 1 year previous employment in the same industry/line-of-work and 1 year of formal education or training in the same industry/line-of-work.

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



**Alt-Doc: Bank Statement Restrictions**

Excessive NSF's on the bank statements may cause the loan to be ineligible. Business bank statements must be operating account(s) reflecting normal business expenses.

- If the bank account has overdraft protection that is linked to another account with the same financial institution, an overdraft would not be considered as an NSF so long as the account does not reflect a negative balance at day's end & shows the transfer from the linked account.

Alt-Doc: Bank Statement Documentation

- Borrower must document two years current continuous self-employment with business license or statement from corporate accountant/CPA confirming the same.
 - Other documentation from third parties may be acceptable on a case by case basis (e.g., letter from an attorney).
 - Acceptable business license must be verified by third party (e.g., government entity, borrower's business attorney). Borrowers whose self-employment cannot be independently verified are not eligible.
 - In instances where a license is not required (e.g., choreographer), a letter from a CPA confirming employment may be accepted in lieu of a license.

1099 Contractor

- A borrower who is a "1099 contractor" may be considered self-employed for this program with confirmation from a CPA that the borrower is a 1099 contractor and files Schedule C or Schedule E with the IRS (personal tax returns). Borrower cannot have ownership of 1099 Payor's business.
- See full Loan Eligibility Guidelines for other income specifics.

Alt-Doc: Bank Statement Income Analysis

- Bank statements are used to calculate and show consistency of income for the self-employed borrower.
- When using 12 or 24 months of bank statements, no P&L is required.

Personal & Business Bank Statements Combined

- If personal and business bank activity are combined in one bank account, borrower is to provide the most recent 24 or 12 months consecutive bank statements from the same account.
- The bank statements are analyzed per Business Bank Statement Analysis guidance in full Loan Eligibility Guidelines to determine qualifying income.
- Standard expense factor applies; 50% expense factor.
- The underwriter may use an expense factor higher than the standard 50% when the analysis of the bank statements reflect higher expenses.
- If the type of business operates more efficiently or typically has a materially different expense factor (lower than standard expense factor), then the expense factor per a CPA/CTEC/EA letter may be applied. PTIN acceptable if documented as employed by a 3rd party tax preparation service.
 - When a CPA or tax preparer produced statement is provided, apply the stated expense factor to calculate the qualifying income. Provide either of the following:
 - A CPA/CTEC/EA produced written statement/letter specifying the actual expense ratio of the business (including cost of goods sold and all other business expenses) based on the most recent year's filed tax returns. Such statement shall not include unacceptable disclaimer or exculpatory language regarding its preparation ([Exhibit G: Sample of CPA Letter](#)).
 - The expense factor per the CPA/CTEC/EA produced statement must be reasonable.
- A CPA/CTEC/EA-produced Profit and Loss (P&L) statement, covering the same period as the bank statements (12 or 24 months) can be provided as long as the following applies:





- CPA/CTEC/EA who prepared the P&L acknowledges in writing that they have prepared or reviewed the P&L
 - PTIN acceptable if documented as employed by a 3rd party tax preparation service.
- The accompanying statement does not have unacceptable disclaimer or exculpatory language regarding its preparation
- The annual deposits on the bank statements must be at least 75% of the gross receipts per the P&L
- When the borrower is an inter vivos trust, personal bank statements in the name of the trust are allowed for qualification.

Personal & Business Bank Statements Separated

- If the borrower maintains separate bank accounts for personal and business, only personal bank statements are used for qualifying.
- The borrower is to provide the most recent 24 or 12 months consecutive personal bank statements and two (2) months business bank statements (to support the borrower does maintain separate accounts, and to show business cash flows in order to utilize 100% of business-related deposits in personal account).
- The deposits are analyzed and averaged to determine monthly income.
 - No expense factor
 - Deposits to a personal account from sources other than self-employment is not to be included.
- When the borrower is an inter vivos trust, personal bank statements in the name of the trust are allowed for qualification.

Business Bank Statements Only

- If only using business bank statements, borrower is to provide the most recent 24 or 12 months consecutive business bank statements.
- The bank statements are analyzed per full Loan Eligibility Guidelines.
- Standard expense factor applies; 50% expense factor.
- The underwriter may use an expense factor higher than the standard 50% when the analysis of the bank statements reflect higher expenses.
- If the type of business operates more efficiently or typically has a materially different expense factor (lower than 50%), then the expense factor per a CPA/CTEC/EA letter may be applied. PTIN acceptable if documented as employed by a 3rd party tax preparation service.
 - When a CPA or tax preparer produced statement is provided, apply the stated expense factor to calculate the qualifying income. Provide either of the following:
 - A CPA/CTEC/EA produced written statement/letter specifying the actual expense ratio of the business (including cost of goods sold and all other business expenses) based on the most recent year's filed tax returns. Such statement shall not include unacceptable disclaimer or exculpatory language regarding its preparation ([Exhibit G: Sample of CPA Letter](#)).
 - The expense factor per the CPA/CTEC/EA produced statement must be reasonable.
- A CPA/CTEC/EA-produced Profit and Loss (P&L) statement, covering the same period as the bank statements (12 or 24 months) can be provided as long as the following applies:
 - CPA/CTEC/EA who prepared the P&L acknowledges in writing that they have prepared or reviewed the P&L
 - PTIN acceptable if documented as employed by a 3rd party tax preparation service.
 - The accompanying statement does not have unacceptable disclaimer or exculpatory language regarding its preparation
 - The annual deposits on the bank statements must be at least 75% of the gross receipts per the P&L

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

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





See full Loan Eligibility Guidelines for Bank Statement Income Analysis Guidance.

Alternate Income Documentation: 1099

Alt-Doc: 1099

This program is designed for borrowers who are paid on a 1099 basis and would benefit from alternative loan qualification methods. Most recent 1 year or 2 years IRS Form 1099(s) may be used as an alternative to tax returns to document the borrower's income.

Alt-Doc: 1099 Restrictions

- Borrower cannot have any ownership interest in the company(s) providing 1099 income
- 1099 statements must be payable to the individual borrower(s). 1099 statements payable to a business entity owned by the borrower(s) are not eligible.

Alt-Doc: 1099 Requirements and Documentation

The following is required:

- Most recent 1 year or 2 years IRS Form 1099(s) from employer(s). Borrower must have 2 year history of 1099 employment.
- Current paystub or bank statement deposit for each 1099 source utilized for qualification (e.g. if borrower provided 1099 forms from five (5) separate sources, then a separate paystub/bank statement deposit must be provided from each of the five (5) 1099 sources to support current receipt)
- Third party documentation (CPA/CTEC/EA) supporting a 2 year employment history when 1 year 1099 used.
- Tax transcripts are required for each 1099 provided
- $1099 \text{ income} \text{ minus } 10\% \text{ expense factor} / 12 \text{ months} = \text{Qualifying Income.}$

Please see below example for qualification of 1099 income, with a borrower obtaining 1099 income from two (2) different sources:

Borrower's 1099 Sources	1099 Income
1099 Form #1	\$25,000
1099 Form #2	\$35,000
Total 1099 Income	\$60,000
Minus 10% Expense Factor	(\$6,000)
1099 Income less Expense Factor	\$54,000
1099 Income less Expense Factor / 12 months	\$54,000 / 12mos
QUALIFYING INCOME	\$4,500 /month

- 1099 Income that is not supported by documentation of current receipt cannot be used for qualification.

Alternative Income Documentation: WVOE

Alt-Doc: WVOE

This program is designed for wage or salaried borrowers providing a streamlined loan qualification method.

Alt-Doc: WVOE Restrictions

- See matrix for acceptable credit, max CLTV, loan amount, combined lien amount and DTI for the transaction.





- This documentation program is not available to borrowers employed by a family-owned/managed business.

Alt-Doc: WVOE Requirements and Documentation

- Acceptable documentation forms
 - FNMA Form 1005 plus 2 months personal bank statements
 - Equifax (The Work Number)
 - Finicity (TXVerify)
 - Any other acceptable online income data vendor
- Form 1005 must be fully completed (current gross pay, YTD earnings, past 2 years earnings) by an authorized company representative (Owner, Officer, HR). When Form 1005 is provided as specified above, 2 months personal bank statements supporting WVOE employment wages must be provided.

Alternative Income Documentation: P&L Only**Alt-Doc: P&L Only**

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

No 4506-C/tax transcripts/Tax Returns

Alt-Doc: P&L Only Qualifying Income

- The borrower's qualifying income will be based on the net income as shown on the P&L statement
- (multiplied by the borrower's ownership percentage).

Alt-Doc: P&L Only Requirements and Documentation

All of the following is required:

- CPA/CTEC/EA signed/prepared Profit and Loss Statement(s) covering the most recent 12 month period.
 - PTIN's are not acceptable to sign/prepare P&L statements.
- A signed letter from the CPA, CTEC (CA Tax Education Council) or EA (Enrolled Agent) on their business letterhead showing address, phone number, and license number is required with the following information:
 - CPA/CTEC/EA confirms they have prepared and/or reviewed the most recent year's business tax return filing; and,
 - The business name, borrower's name, and percentage of business ownership by the borrower.
- Evidence the business has been in operation for twelve (12) months or greater
- Evidence of business ownership percentage if the business is a corporate entity and the P&L covers the business as a whole (not just the borrower's share of the business).
 - Borrower must have at least 25% ownership of the business.
 - Acceptable forms of documentation include a business license, signed written statement from the CPA/CTEC/EA, an Operating Agreement, Articles of Incorporation/Articles of Organization, a Partnership Agreement, or a Business Certificate filed with a governmental agency.
 - Documentation showing sole member entity or sole proprietor is acceptable to indicate 100% ownership.
- Third-party documentation must be provided from which the borrower's ownership percentage can be determined. Documents which are not required to list all owners do not meet this requirement.
- Income from co-borrowers who are W2 wage earners is to be documented with most recent W2 and paystub.

P&L statements not meeting the aforementioned requirements, or which are suspicious in nature, may require





additional verification.

Asset Depletion

On stand-alone loans, Asset depletion can be used to augment qualifying income on all documentation types except DSCR.

Asset Depletion cannot be used as a stand-alone income documentation type.

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

- Document each asset with statements covering six (6) months.

Investor Debt Service Coverage Ratio: DSCR

DSCR: Investor DSCR (Debt Service Coverage Ratio)

This program is designed for experienced real estate investors and qualifies borrowers based on cash-flows solely from the subject property. Only stand-alone cash-out transactions are eligible for this program.

The borrower must have a history of owning and managing commercial or residential investment real estate for a period of at least 12 months within the most recent 36 months. Proof of this investor experience must be in loan file. See also DSCR: Professional Investor.

No borrower employment or income to be included on the application.

Borrower must acknowledge the loan is a “business purpose loan” via the Exhibit A: Occupancy Affidavit.

DSCR loans are classified as business loans. Appendix Q and ATR requirements do not apply. First-Time Investors are not eligible for this transaction type.

DSCR: Restrictions

- See Matrix for acceptable credit, max CLTV, reserves, loan amount and DSCR for the transaction. Not eligible for owner occupied or second home.
- Not eligible for purchase/piggyback transactions, or transactions involving first time investors.
- Pre-payment penalty must be in compliance with the terms and limitations of the applicable state or federal law.

DSCR: Documentation

- Income used to qualify borrower is based upon cash flow from subject property.
- All DSCR CES loans must include a Form 1007 Comparable Rent Schedule for long-term rental leases. For short-term rental leases, an Alternative Short-Term Rental Analysis form developed by the AMC must be provided.
- A 4506-C is NOT required.

Refinance Currently Leased 1-4 units:

DSCR is calculated using lower of lease agreement or rent survey.

If existing lease agreement(s) show a higher rental amount than the market rent, the higher rents may be used with receipt of most recent three (3) months payments (e.g. cancelled checks, bank statements, etc.), or as per the terms on the lease agreement for new leases.

If the market rent on Form 1007 is greater than the existing lease, the higher market rents may be used as listed not exceeding 120% of the lease amount to qualify (e.g. lease is \$1,400 and Form 1007 is \$1,800, then \$1,680 may be used to qualify. A copy of the lease is not required if the appraiser lists the rent amount for the subject on Form 1007. Otherwise, a copy of the lease is required.

Refinance vacant single unit property:





- Utilize rent survey (Form 1007) to calculate DSCR.

Refinance 2-4 unit with a vacancy:

Eligible with maximum of 1 vacant unit. Use lower of lease agreements or market survey for leased units. Use market survey for vacant unit to calculate DSCR.

If existing lease agreement(s) show a higher rental amount than the market rent, the higher rents may be used with receipt of most recent three (3) months payments (e.g. cancelled checks, bank statements, etc.), or as per the terms on the lease agreement for new leases.

If the market rent on Form 1007 is greater than the existing lease, the higher market rents may be used as listed not exceeding 120% of the lease amount to qualify (e.g. lease is \$1,400 and Form 1007 is \$1,800, then \$1,680 may be used to qualify. A copy of the lease is not required if the appraiser lists the rent amount for the subject on Form 1007. Otherwise, a copy of the lease is required.

DSCR Refinance Seasoning:

- Not available with less than six (6) months seasoning. After 6 months seasoning, the current appraised value may be used to calculate CLTV.

Accessory Dwelling Unit (ADU)

For properties defined as a one-unit property with an accessory unit (ADU), rental income may be qualified from the accessory unit subject to the following:

- Appraisal must reflect that the zoning compliance is legal (permits are not required to establish zoning compliance),
- The appraisal must include at least two (2) sales comparables with an accessory unit, and Form 1007 must include at least one rental comparable with an accessory unit in which the ADU receives rental income.
- The following are considered on a case-by-case basis:
 - One-unit property with two (2) accessory units
 - Two-unit property with a single accessory unit
- Market rent for the accessory unit should be documented on Form 1007, and the file must include a copy of the current lease with two (2) months proof of current receipt.

Short term leases

- Use of Alternative Short-Term Rent Analysis form developed by the appraisal management company
 - If an Alternative Short-Term Rental Analysis is not available from the AMC, the Form 1007 from the appraiser will be accepted.
- Use the leases used throughout the year and average over the 12-month period. If there are months where the property is vacant, use zero for that month in the average. The average should be supported by the comparable rent schedule (within reason).
- VRBO/Air BNB or similar services are allowed on DSCR:
 - If subject property leased on a short-term basis utilizing an on-line service such as VRBO/Air BNB; 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. If documentation cannot be provided covering a 12-month period, the property will be considered unleased.

An expired lease agreement that has verbiage that states the lease agreement becomes a month-to-month lease once the initial lease/rental term expires is allowed.

All borrowers must provide the following:

- A complete schedule of all real estate owned, indicating financed and “free and clear”
- properties
- Mortgage/lien rating for the subject property and the primary residence.





- Documented proof that lien-free properties are truly “free and clear” of all liens

DSCR: Housing History

A satisfactory housing payment history for the previous twelve (12) months is required for the borrower’s primary residence, as well as the subject property. If housing payment history(s) are verified using a VOM or VOR (private mortgage, landlord, etc.), no additional documentation (e.g. cancelled checks) is required. Any housing event or mortgage tradeline delinquency 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.

- If a borrower has less than 12-months primary housing history verified, a 12-month satisfactory mortgage history from another REO owned by the borrower may be utilized.
- If borrower is a Professional Investor, see section DSCR: Professional Investor for additional information.

DSCR: Qualification

Loan qualification is based on Debt Service Coverage Ratio (DSCR) for the subject property.

- Use Note Rate to calculate PITIA for use in Debt Service Coverage Ratio (DSCR).

Debt to Income (DTI) ratio is not calculated.

DSCR (Debt Service Coverage Ratio)

The debt service coverage ratio is calculated by taking the gross rents divided by the PITIA of the subject property.

- No vacancy factor.
- Use the Note Rate to calculate PITIA (see Matrix for details).
- Rents are derived from the lesser of the rental/lease agreement or the rent survey (Form 1007). See Section SCR: Documentation for allowance to use higher rent amount from lease agreement(s).
- Minimum DSCR – 1.00

DSCR: Professional Investor

Provides reduced documentation on non-subject properties for the borrower who has a strong investor track record exhibited by the following

- Currently owns 5 properties (Primary residence included).
- Has five (5) years credit depth reported on credit report.
- At least three (3) mortgages are reported on credit report within the last three (3) years. No minimum months reporting required. No delinquencies allowed on months reported.

Reduced Documentation:

- Mortgage histories on non-subject properties are not required.
- Borrower housing history not required.

Required Information:

- At least five (5) properties owned by the borrower to be listed on REO schedule
 - For properties not listed on the credit report, these can be included in the REO
- All information completed on REO schedule (mortgage balances, gross rents, etc.).

Senior Lien Documentation Requirements**Stand-Alone CEs**

- Current (within 60 days) first mortgage statement showing,
- Current principal balance.
- Fully amortized.





- Term.
- HOA statement (if applicable).
- HOI, flood insurance (if applicable), flood cert.

