HELOAN1 DSCR

Program Code: HELOAN-1 DSCR -30, -20, -15, -10

Investment Property			
Min. 1.00 DSCR			
Property Type	**Loan Amount**	**Minimum Fico**	**Max CLTV**
SFR and PUD	100,000-350,000	720	80%
		700	75%
		680	70%
	350,001-500,000	720	75%
		700	70%
		680	65%
	500,001-750,000	720	70%
		700	65%
		680	55%
Condo and 2-4 Unit	100,000-350,000	720	75%
		700	75%
		680	70%
	350,001-500,000	720	75%
		700	70%
		680	65%
	500,001-750,000	720	70%
		700	65%
		680	55%

Combined Lien Balance					
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%

Borrower Eligibility	
Investor Experience	▪ Experienced Investor: Borrower must have a history of owning and managing commercial or residential real estate for at least 12 months within the most recent 36 months. ▪ First Time Investor: Not eligible for this transaction type
Income Requirement	
DSCR Qualification	➢ **DSCR Restrictions & Requirements** ▪ Income used to qualify borrower is based upon cash flow from subject property. ▪ All DSCR loans must include a Form 1007 Comparable Rent Schedule. ▪ 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 receipts of the most recent three (3) payments (e.g. bank statements, canceled checks), 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 1077 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. ▪ Short term leases • Nightly Rate charge must be provided • Property must be located in an established short term rental market and confirmed in the property appraisal ○ Short-term rents may not be utilized if state or local (city or county) regulations restrict the ability of the subject property to be rented on a short-term basis • Gross rents reduced by 20% for specific costs)advertising, cleaning, etc) • 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 is 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 each financed property • Documented proof that lien-free properties are truly "free and clear" of all liens ➢ **<u>DSCR Qualification</u>** ▪ 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 for leased properties. • Use the Note Rate to calculate PITIA (see Matrix for details). • Minimum DSCR – 1.00 ➢ **<u>DSCR Professional Investor</u>** ▪ 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: • All properties owned by borrower to be listed on REO schedule. • All information completed on REO schedule (mortgage balances, gross rents, etc.).
General Requirements	
DSCR	▪ Must be 1 or greater ▪ Qualifying DSCR ratio based on Note Rate
Occupancy	▪ Investment
Product Type	▪ 30-Yr Fixed ▪ 20-Yr Fixed ▪ 15-Yr Fixed ▪ 10-Yr Fixed
Loan Purpose	▪ Stand-Alone Cash-Out (Simultaneous/Piggyback not allowed)
Loan Amount	▪ Min: $100,000 ▪ Max: $750,000
Property Type	▪ Single Family, PUD, Townhome, Rowhome, Modular ▪ 2-4 Units – Max 70% CLTV ▪ Condo – Warrantable – Max 70% CLTV
Declining Market	▪ Max CLTV: 70%
Rural Property	▪ Not eligible
State Restrictions	• Texas not Permitted • Properties located in Baltimore City, Maryland not Permitted
Seasoning	▪ Properties owned less than 6 months are ineligible.
Recently Listed Properties	▪ Properties listed for sale within 6 months of Note date are ineligible.
Senior Lien	▪ Qualify the 1st lien IO on the fully amortized payment over the remaining term after the IO period. ▪ Senior Lien ARM with < 3 years fixed period remaining must qualified on fully indexed payment
Ineligible Senior Liens	▪ 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 loan application in order to be eligible. ▪ Negative amortization ▪ Reverse Mortgages

	▪ Balloon loans that the balloon payment comes due during the amortization period of the 2nd lien. ▪ Private Party
Interest Only Senior Lien	▪ Qualify 1st lien I/O on Fully Amortized payment on remaining term after I/O period.
Subordinate Financing	▪ All existing subordinate liens must be satisfied at or prior to closing
Cash-Out	▪ A letter of explanation regarding the use of loan funds must be provided.
Escrow Impound	▪ Not allowed
Prepayment Penalty	▪ Minimum 1yr prepayment penalty required on DSCR doc type where allowable by state. Prepayment penalty must be in compliance with the terms and limitations of the applicable state or federal law
Document Age	▪ Credit documents: 90 days ▪ Title Report: 90 days ▪ Appraisal: 120 days (With Recertification of Value: 180 days)
General Underwriting Guidelines	
Credit Score	▪ Use lowest middle score of all borrowers
Tradelines	▪ 3 tradelines reporting for 12+ mo. or 2 tradelines reporting for 24+ mo. all with activity in the last 12 mo. ▪ **Borrowers that have three (3) credit scores satisfy the minimum tradeline requirements.**
Housing History	▪ 12 months Housing payment history required on Borrower's Primary and Subject Property. Minimum 12 months required. ▪ 0x30x12 ▪ Subject Senior Lien must be on reporting on credit report. ▪ When the Senior Lien is not reporting on the credit report only the following documentation types are allowed to verify housing history: ○ VOM from an institutional lender or ○ Credit supplement ▪ Any housing history reporting on the credit report for any property owned by the borrower needs to be included in the housing history eligibility
Housing Event Seasoning	▪ 48 months - Foreclosure, short-sale, deed in lieu, bankruptcy. ▪ No multiple events in last 7 years. ▪ Any housing event reporting on the credit report for any property owned by the borrower needs to be included in the housing event seasoning
Derogatory Credit	▪ Open charge-offs or collections (including medical) with a balance of $1,000 or more per occurrence must be paid at closing ▪ No delinquent tradelines at closing
Borrower Eligibility	▪ US Citizen ▪ Permanent Resident Alien

Ineligible Borrower	▪ Non-Permanent Residents ▪ Foreign Nationals ▪ DACA and Asylee borrowers not allowed ▪ Irrevocable Trust ▪ Borrowers who are party to a lawsuit

Title Vesting	▪ Individuals
	▪ Joint tenants
	▪ Tenants in Common
	▪ Inter Vivos Revocable Trust
	▪ Business Entity – Investment properties ONLY if Current Vesting is in:
	  o Limited Liability Company (LLC)
	  o Limited and General Partnerships
	▪ Corporations

Business Entity	▪ Permitted on Investment Properties if current vesting is already in the name of the borrower's business.
	▪ All persons with >= 25% interest in the business entity must apply for the loan and meet credit requirements
	▪ Max 4 members
	▪ Entity Documents:
	  o Operating Agreement
	  o Articles of Organization
	  o EIN/ Tax Identification Number
	▪ Certificate of Good Standing

Reserves	▪ None Required
Assets Requirements	▪ None Required
Appraisals	▪ FNMA Form 1004, 1025, 1073 with interior/exterior inspection with rent comparables form 1007 ▪ Appraisal review product is required unless 2nd appraisal is obtained ▪ Transferred Appraisal is **NOT** acceptable

Appraisal Review	• Secondary valuation product required in every file. Acceptable review products include one of the following:
	  o Collateral Underwriter (CU) or Loan Collateral Advisor (LCA) as a secondary valuation if the score is <= 2.5
	  o Clear Capital - AVM
	    ▪ AVM Supporting value within 10% variance
	    ▪ Confidence Score of at least 90%
	    ▪ FSD Score to be 0.00 to 0.13
	  o CDA from Clear Capital

Declining Market	▪ Declining Market: Max 70% CLTV
Minimum Property Standard	▪ GLA must be at least 600 sq ft ▪ Property constructed for year-round use ▪ Permanently affixed continuous heat source ▪ Maximum deferred maintenance/ Cost to Cure cannot exceed $2,000 ▪ No health or safety issues both internal and external
Ineligible Property	▪ Adult Assisted Living/Care Facilities ▪ Agricultural of Commercial Zoned Properties

	▪ Condotels ▪ Co-ops ▪ Non-Warrantable Condo ▪ Deed-restricted properties ▪ Income producing properties (ie: Ranches, Orchards, etc) ▪ Log Homes ▪ Land Trust ▪ Manufactured/Mobile Homes ▪ Mixed-Use ▪ Multiple Dwellings on Single Lot (1 Legal ADU acceptable on SFR) ▪ Property > 10 acres ▪ Room and Board Facilities ▪ Rural Properties ▪ Unique Properties (ie: Geodesic domes, etc) ▪ Working Farms and Hobby Farms
Maximum Financed Properties	▪ The maximum number of financed properties to any one borrower is limited to twenty (20) residential properties including subject property.
Title Report	▪ ALTA Short Form – Lenders Policy
Power of Attorney	▪ Not Permitted
Solar Liens	▪ All Solar liens, UCC filings, Notice of Producer Contracts, etc must be removed from title and loans must paid-off prior to or at closing