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# Program Guidelines

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## Full Documentation Programs

The full doc program is used to qualify a borrower by analyzing the source of their income for stability and continuity.

Calculation/Documentation:

### Wage Earners

- **Income derived from a consistent hourly, weekly or monthly wage, provide:**
  - W-2s for the most recent year; and
  - Pay stub(s) covering the most recent 30-day period providing year-to-date earnings

### Self Employed – Borrower who owns 25% or more in a company

- **Income derived from self-employment and claimed on Schedule C, provide:**
  - Federal income tax returns for the most recent tax year, including all schedules; and
  - Year-to-date profit and loss statement(s) covering the period since the last tax return was filed
- **Income derived from self-employment and claimed on Schedule E, provide:**
  - Personal tax returns for the most recent tax year, including all schedules;
  - Business tax returns for the most recent tax year, including all schedules; and
  - Year-to-date profit and loss statement(s) covering the period since the last tax return was filed
- **Income derived from self-employment and claimed on Corporate Tax Return, provide:**
  - Personal tax returns for the most recent tax year, including all schedules;
  - W-2s for the most recent year;
  - Corporate tax returns (IRS Form 1120) for the most recent tax year, including all schedules; and
  - Year-to-date profit and loss statement(s) covering the period since the last tax return was filed

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## Bank Statement Programs

The Bank Statement Income option is designed to qualify a borrower by analyzing cash flow from the borrower's bank accounts.

### Calculation/Documentation:

#### **Option One: 12 months Personal Bank Statement Program**

- Qualifying income is 100% of deposits, not including transfers from other personal accounts, averaged over 12-month period
- Verification of business existence required
- Multiple bank accounts may be used (combination of business and personal is prohibited)
- All parties listed on each bank account must be included as borrowers on the loan (exceptions are available contact your AE)
- Statements must be consecutive and reflect the most recent months available
- Additional income deposited into the bank statements but derived from a source other than the self-employed business may not be included in the bank statement average but can be documented separately
- Income derived solely from the ownership of rental properties as declared on Schedule E are eligible case by case (contact your AE)
- At least one borrower must be self-employed, co-borrower can be a W2 employee

#### **Option Two: 24 months Personal Bank Statement Program**

- Qualifying income is 100% of deposits, not including transfers from other personal accounts, averaged over a 24-month period
- Verification of business existence required
- Multiple bank accounts may be used (combination of business and personal is prohibited)
- All parties listed on each bank account must be included as borrowers on the loan
- Statements must be consecutive and reflect the most recent months available
- Additional income deposited into the bank statements but derived from a source other than the self-employed business may not be included in the bank statement average but can be documented separately
- Income derived solely from the ownership of rental properties as declared on Schedule E are eligible case by case (contact your AE)
- At least one borrower must be self-employed, co-borrower can be a W2 employee

#### **Option Three: 12 month Business Bank Statement Program**

- Qualifying Income is the lower of the following two options:
  - Income indicated on the initial signed 1003
  - Monthly net income from the P&L OR income after deducting a 50% expense factor (the percentage can be higher or lower if the underwriter determines its reasonable for the line of work and the file is notated ) from the total usable deposits on the bank statements.

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The P&L can be prepared by a tax preparer, CPA or tax attorney and should cover the same period as the bank statements - it should be signed and dated.

The monthly gross revenue from the P&L must be supported by the business bank statements provided. For example: bank statements provided are from 12/2018 thru 12/2019 – P&L should cover December 2018 thru December 2019. Total monthly average deposits per bank statements (minus any disallowed deposits) must be within 10% of monthly gross revenue reflected on P&L.

- Note: The total deposits calculated with business bank statements is used solely to validate self-employed earnings reported on the P&L.
- Business bank accounts, personal bank accounts addressed to a DBA, or personal accounts with evidence of business expenses can be used for qualification
- Verification of business existence required
- Wire transfers and transfers from other accounts must be documented or excluded from the calculation.
- Statements should show a trend of ending balances that are stable or increasing over time. Decreasing or negative ending balances must be explained.
- Business expenses must be reasonable for the type of business
- At least one borrower must be self-employed, co-borrower can be a W2 employee

## **Option Four: 24 month Business Bank Statement Program**

- Qualifying Income is the lower of the following two options:
  - Income indicated on the initial signed 1003
  - Monthly net income from the P&L OR income after deducting a 50% expense factor (the percentage can be higher or lower if the underwriter determines its reasonable for the line of work and the file is notated ) from the total usable deposits on the bank statements.

The P&L can be prepared by a tax preparer, CPA or tax attorney and should cover the same period as the bank statements - it should be signed and dated.

The monthly gross revenue from the P&L must be supported by the business bank statements provided. For example: bank statements provided are from 12/2018 thru 12/2019 – P&L should cover December 2018 thru December 2019. Total monthly average deposits per bank statements (minus any disallowed deposits) must be within 10% of monthly gross revenue reflected on P&L.

- Note: The total deposits calculated with business bank statements is used solely to validate self-employed earnings reported on the P&L.
- Business bank accounts, personal bank accounts addressed to a DBA, or personal accounts with evidence of business expenses can be used for qualification
- Verification of business existence required
- Wire transfers and transfers from other accounts must be documented or excluded from the calculation.
- Statements should show a trend of ending balances that are stable or increasing over time. Decreasing or negative ending balances must be explained.
- Business expenses must be reasonable for the type of business
- At least one borrower must be self-employed, co-borrower can be a W2 employee

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## Asset Depletion

- The following assets are considered eligible and can be utilized to calculate income:
  - 100% of checking, savings, CD's and money market accounts
  - 100% of the value of stocks (must be fully vested), bonds & mutual funds
  - 100% of retirement assets (if borrower is not of retirement age reduce to 60%)
  - Cash out received on the subject transaction
- Down payment, closing costs and reserves if applicable must be excluded from the balance before calculating income.
- Monthly income is: Total Assets divided by 120 (exceptions on assets and calculation are available - contact your AE)

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## Foreign National

Foreign national is a person who is not a resident of the United States and does not permanently reside or work in the United States.

- Must have an unexpired passport from their country of citizenship
- Ineligible -Residents of any country not permitted to transact business with US companies (as determined by any US government authority)
- Second home and investment occupancy only
  
- Self Employed Foreign National
  - A letter (on company letterhead) from a professional based in the borrower's country of residence – Accountant/CPA/Financial Institution Officer/ Licensed Financial Advisor verifying both the nature of the business and income figures for the last 2 years and year-to-date. Must be translated into English by a certified translator (if applicable).
  - Validation of the existence of the business through internet web page address, or business/operator license from a governmental office
  
- Wage Earner Foreign National
  - A letter (on company letterhead) from an authorized representative the employer stating employment history (position/title, time on job), year to date earnings and earnings for the prior 2 years. Must be translated into English by a certified translator (if applicable).
  
- Eligible Assets
  - Assets held outside the US are eligible, must have a copy of their 2 most recent bank statements (bank statements must be translated into English, if applicable)
  - US Assets provide 2 months recent bank statements
  
- Credit
  - US credit not required
  - If no foreign credit report is available, the following can be provided: 3 credit reference letters translated into English with a 24-month history which can include rental/mortgage history and non-traditional credit sources, i.e. utility company

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## Debt Service Coverage Program

The DSCR program is used to qualify a borrower by analyzing the source of their income for stability and continuity.

### How to Calculate Monthly Income

- Qualification based on property cash flow (take 100% of the gross yearly rents divided by the PITIx12 (yearly) of the subject property).
- The PITI calculation for interest only loans is based on a 30 year amortization (40 year loan).
- Do not provide any personal income and no 4506T required.
- No DTI calculation is used Loans under the DSCR Investor Program are classified as business loans. Appendix Q and ATR requirements do not apply.
- To calculate gross income, use the lower of the (a) executed lease agreement or (b) market rent from appraisal form 1007. If the executed lease agreement reflects a higher monthly rent, it may be used in the calculation when evidence of receipt of the higher amount for the 3 most recent, consecutive months is provided.
- Refer to the DSCR matrix for options & LTV restrictions.
- First time homebuyer not permitted (exceptions are available – contact your AE)
- Max loan amount \$1.5mm.

### Minimum DSCR

- 1.00% (Contact your AE for exceptions)



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## Eligibility Requirements

### Qualified Borrower(s)

- Wage earner borrowers are required to have a 2-year employment history
- Self-employed borrowers must be self-employed a minimum of two years in the same line of work. Exceptions will be considered for newly self-employed borrowers who are in the same line of work as previously. CPA or other 3rd party verification is required.
- (Contact your AE for an exception)

### Non-Occupant Co-borrowers

- Borrower must ratio within 10% of maximum allowed DTI (up to 53%). Minimum FICO 680 and max LTV 80% (exceptions available – contact your AE)

### Transcripts

- 4506T required

### First Time Home Buyer

- Allowed on primary residence purchases, other occupancies available case by case. Contact your AE for exceptions.

### Occupancy

- Owner Occupied, Second Home, & Investment Properties
- Refer to matrices for options and LTV restrictions

### Eligible Borrowers

- **US Citizens**
- **Permanent Resident Aliens** (rates & LTV's are the same as a US citizen): Individuals who permanently reside in the United States. Required evidence: Legible front and back copy of the borrower(s) valid Permanent Resident Alien Card (green card) or valid US driver's license.
- **Non-Permanent Resident Aliens** (rates & LTV's are the same as a US citizen): Individuals who live and work in the United States. Required evidence: Valid work VISA with an expiration date not within 2 years

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following the note date or an Employment Authorization Card along with a copy of the Petition for Non-Immigrant Worker (form I-140) (if the expiration date is within 2 years provide evidence employer is sponsoring or the borrower has been in the US for 5+ years)

## Credit Score

- Primary wage earners middle score; see matrix for minimum credit score required (Contact your AE for an exceptions)

## Maximum DTI

- Max 50% (Contact your AE for exceptions up to 55%); Debt may be paid off to qualify

## Loan Amounts

- \$200,000-\$3,000,000 - Refer to matrix for details

## Maximum LTV/CLTV

- Up to 85% LTV/90% CLTV - Refer to matrix for details

## Credit Requirements

- 12-month mortgage/rent history: 1x30
- FC/SS/DIL: 36 months seasoning
- Bk (7,11, or 13): 36 months seasoning
- (Contact your AE for any exceptions)

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## Payment Qualification

- P&I
  - The greater of the note rate or the fully indexed rate (margin + index) amortized over 30 years is used to qualify (30 year term)
- Interest Only
  - The greater of the note rate or the fully indexed rate (margin + index) amortized over 30 years is used to qualify. The interest only period is the initial 10 years followed by a 30-year amortized period (40 year term)

## Arm Features

- Refer to rate sheet
- Loans are not assumable

## Assets

- Sourced or seasoned for 60 days (2 most recent months of statements required) if there are any large deposits on those statements we would need to paper trail the source.
- Interested Party Contributions
  - Max interested party contribution cannot exceed the lesser of the actual closings costs or 6% of sales price for all occupancy types and LTV's
- Gift Funds
  - Minimum borrower contribution -Borrowers must contribute a minimum of 5% of their own funds towards the down payment on purchase transactions. (exceptions are available – contact your AE)
  - If the gift is wired directly to escrow, we do not need source the donor's account. Gift letter is still required.
- Business Accounts
  - For self-employed borrowers, business assets are an acceptable source of funds for down payment, closing costs, and reserves. The borrowers on the loan must have ownership of the business and must be the owners of the account.
- Retirement Accounts
  - Vested funds from retirement accounts (IRA/SEP/Keogh/401k accounts) are acceptable sources of funds for the down payment, closing costs, and reserves. If the funds are being used for reserves 100% of the value of the account can be used, and liquidation is not required.

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- Stocks, Bonds and Mutual Funds
  - Vested assets in the form of stocks, government bonds, and mutual funds are acceptable sources of funds for the down payment, closing costs, and reserves provided their value can be verified. If the funds are being used for reserves, 100% of the value of the assets may be used, and liquidation is not required.
- Life Insurance
  - Cash value of life insurance is an acceptable source of funds to meet the reserve requirement.
- Cash Out
  - Cash out on the subject transaction is an acceptable source of funds to meet the reserve requirement.

## Cash Out

- Max \$500,000 (Contact your AE for an exception above \$500,000)
- Texas [50(a)(6)] transactions are not eligible (owner occupied cash out refinances)

## Rate & Term

- Max cash back to be rate & term is limited to the lower of 2% of the loan balance or \$10,000.00.

## Escrows

- Escrows required for taxes and insurance only if loan is HPML

## Eligible Property Types

- SFR, PUD, Townhouse, Condo, 2-4 Unit and Non-Warrantable Condo – refer to the matrix for LTV's

## Ineligible Property Types

- Mobile homes, raw land, commercial properties, co-ops, and multifamily housing greater than four units are not acceptable. Unique properties such as geodesic domes, berm homes, earth homes, or off grid homes will be considered on a case-by-case basis.

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## Prepayment Penalty

- Owner Occupied, Second Home
  - None
- Investment Properties
  - 3 year hard prepay (contact your AE for exceptions)
  - 6 months interest on 80% of the outstanding balance or as allowed by law

## Reserves

- Refer to matrices

## Subordinate Financing

- Max 90% CLTV (Institutional seconds only)

## EPO

- 180 days from first payment due date

## Appraisal Requirements

- Loans equal to or less than \$1,500,000:
  - Require one full 1004 uniform residential appraisal report with three closed sales and two pending sales or current listings.
- Loan amounts over \$1,500,000:
  - Require two full 1004 uniform residential appraisal report appraisals. They can be ordered through the same AMC but must be different appraisers. Each appraisal should include three closed sales as well as two pending sales or current listings. The report should include a brief narrative of each of the comparable sales, including how they relate to the subject. The appraisal must clearly state how each comparable was weighted. The two appraisals should be within 10% of each other for the higher value to be used. If there is greater than 10% difference in value, the lower of the 2 should be used. Exceptions are available case by case
- Appraisal reviews:
  - A secondary valuation is required for all loans regardless of the dollar amount, unless there are 2 full appraisals in the file (desk review, field review or CDA)

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- Determining LTV:
  - The LTV ratio is measured by dividing the requested loan amount by the value of the property.
  - If the property has been listed in the last 12 months, the value is based on the appraised value or the lowest listed sales price, whichever is lower.
  - Cash-Out – if the property was acquired within the last twelve months, the lower of the original purchase price or appraised value will be utilized.
  - Listed Property – a property must be off the market before receiving cash-out on a refinance; however, exceptions with strong compensating factors are considered on a case by case basis.
- Rural Properties:
  - Case by case
- Agricultural Purposes:
  - Case by case
- Condominiums:
  - All loans secured by condominiums require a completed project questionnaire
- Non-Warrantable Condos:
  - Commercial space: up to 50% of the project
  - New Construction: 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
  - CondoTels: Must have a full kitchen, be common and customary for the market and have comparable sales outside the project (break out units case by case)
  - Delinquent HOA dues: No more than 20% of the total units in the project may be 60 days or more past due on the payment of condominium/association fees.
  - Investor Concentration: Up to 60% without exception: higher percentages may be considered on investment property transactions when an established history of a high percentage of rental units in the condo project can be demonstrated.
  - HOA control : The developer may be in control of the condominium association provided the Master Agreement provides for the homeowners to take control upon either a predetermined percentage of unit sales or within a defined time period.
  - Reserves: Budget must include a dedicated line item allocation to replacement reserves of at least 8% of the budget or a reserve study will be required
  - Litigation: Projects involved in litigation are acceptable as long as the pending lawsuit(s) are not structural in nature which affect the subject unit, do not affect the marketability of the units and potential damages do not exceed 25% of the HOA reserves or documentation should be provided by the insurance carrier or the attorney representing the insurance carrier that the insurance carrier has agreed to provide the defense and the association's insurance policy is sufficient to cover the litigation.
  - Percentage of ownership: Single entity ownership in project up to 20% without exception
- Cooperatives:
  - Not allowed
- Tenants in Common:
  - case by case
- Improvements to Properties:

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- All improvements to properties should be permitted and completed in a workmanship like manner. Real property must be generally owned “fee simple” to be acceptable collateral; leaseholds are acceptable, on a case by case basis, if the remaining term of the lease extends beyond the term of the loan. In cases where the term of the lease does not extend beyond the term of the loan, the borrower must have the ability to purchase the fee interest at the expiration of the lease.
- **Property Reports:**
  - A termite inspection report will be required for purchase money mortgages, if it is required by the real estate sales contract.
- **Valid Period:**
  - An appraisal report is valid for 120 day from date of valuation. An appraisal report with a recertification of value and two additional comparable sales is valid for twelve months. The 1004D must be completed prior to the expiration date of the appraisal
- **Appraisal Requirements:**
  - The appraisal must conform to FNMA and USPAP guidelines. Any appraisal item that is noncompliant with FNMA requirements must be addressed by an appraiser's comments. Appraisals must be ordered through a 5th Street Capital approved AMC.
  - The appraisal must contain the following:
    - A 3 -year sales history and property history (with renovations and additions) of the subject property;12 -month history for comparable sales; An estimated "market time" for the subject property; The report must include photographs of the main living area, the kitchen and every bathroom. Submit forms 216 and 1007 with each investment properties.
  - **FNMA Compliant:** A sketch of the floor plan and comparable map
  - An overview of "current market conditions";
  - Narrative description of the property emphasizing the positive and negative features of the home;
  - Note whether the subject property is listed for sale or lease. Note the terms of the lease, if applicable;
  - Colored photos required on all loans and must be included in the submitted loan file;
  - Show net and gross adjustments for all comparable sales; and
  - Pending and Listing comparable sales must be in grid format with adjustments applied.
- **Seller concessions:**
  - Excessive sales concessions can artificially inflate the sales price of a property, which can then lead to an inflated market value. Appraisals must reflect an opinion of market value after adjustments for any special or creative financing or sales concessions have been made.
- **Flips:**
  - If a seller has owned a property for less than 6 months, scrutiny should be given to the appraisal to evaluate whether the value is supported. If the subject transaction is a higher-priced

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mortgage (HPML), an additional appraisal must be ordered that the borrower cannot pay for if the following exists:

- more than a 10 percent price increase if the seller acquired the property in the past 90 days
- more than a 20 percent price increase if the seller acquired the property in the past 91 to 180 days

## Power of Attorney

- The POA can be used for closing documents only and is not acceptable for application or credit verification documents.
- The attorney-in-fact may not have any direct or indirect financial interest in the transaction (coborrowers are allowed to act as the POA).
- The POA should be durable and in full force and effect on the closing date, it would need to allow for it to be revoked in writing, or gives a specific expiration date which should be after closing.
- Must be dated no more than 180 days prior to the closing date.
- The POA must be approved by the title company.
- POA may not be used to sign on behalf of a trustee for a loan using a trust.
- POA is not eligible on foreign national loans.

## COVID-19

Thorough analysis to be performed on borrower earnings and any impact to the income stream that may have happened during the pandemic. If income was impacted document how the business has recovered and whether the most relevant income is being used to document the borrower's ability to repay.

**See Product LTV Matrix for thresholds  
Additional Restrictions Apply**