

DSCR I Guidelines



WHOLESALE MORTGAGE BANKERS

Underwriting Method	<ul style="list-style-type: none"> • Manual Underwriting Only
Maximum Points and Fees	<ul style="list-style-type: none"> • 5% of the "Total Loan Amount" (as defined by 1026.32(b)(4) and calculated by the lender) or the maximum allowed under applicable state laws.
Minimum Loan Amount	<ul style="list-style-type: none"> • \$150,000
Eligible Loan Products	<ul style="list-style-type: none"> • 30 Year Fixed • 40 Year Fixed • 30 Year Fixed Interest-Only (10/20) – fully amortizing • 40 Year Fixed Interest-Only (10/30) – fully amortizing • 5/6 ARM • 5/6 ARM Interest-Only (10/20) – fully amortizing
ARM Info	<ul style="list-style-type: none"> • Index – 30-day average SOFR • Margin/Floor – refer to the daily rate sheet • Caps – refer to the daily rate sheet • Qualifying Rate – Note Rate
Interest-Only	<ul style="list-style-type: none"> • Interest-Only term – 10 years • DSCR is calculated based on the initial interest-only payment – Gross Rental Income ÷ ITIA • If DSCR ≥ 1.00 and if FICO ≥ 700 – 75% max LTV • If DSCR ≥ 0.75 and if FICO ≥ 700 – 70% max LTV • If DSCR < 0.75 or if FICO < 700 - ineligible
Temporary Buydown	<ul style="list-style-type: none"> • Temporary Buydown is allowed under the following structures: <ul style="list-style-type: none"> ○ 2-1 ○ 1-0
Subordinate Financing	<ul style="list-style-type: none"> • Purchase loans with new subordinate financing are permitted • Existing subordinate financing can be re-subordinated on refinance • Subordinate financing must be institutional
Borrower Eligibility	<ul style="list-style-type: none"> • US Citizen • Permanent Resident Alien <ul style="list-style-type: none"> ○ 90 days must remain from the expiration date to the new note date ○ If less than 90 days remain, proof of automatic renewal must be provided (must fund before renewal expires) • Non-Permanent Resident Alien <ul style="list-style-type: none"> ○ For eligible VISA and EAD category – please refer to the eligibility matrix ○ 90 days must remain from the expiration date to the new note date ○ If less than 90 days remain, proof of automatic renewal must be provided (must fund before renewal expires) • Revocable Trust • Corporation – for investment property only • Limited Liability Company – for investment property only
Ineligible Borrower	<ul style="list-style-type: none"> • Non-occupant co-borrowers • Co-signers • Applicants possessing diplomatic immunity • Borrowers from OFAC sanctioned countries or on the OFAC list • Borrowers on HUD LDP list or GSA Excluded Party list or any other exclusionary list • Politically exposed borrowers
First Time Home Buyer	<ul style="list-style-type: none"> • First-time home buyer is anyone who has had property ownership in the last 36 months • First-time home buyer is ineligible
First Time Investor	<ul style="list-style-type: none"> • First time investor is anyone who has owned/managed an investment property (residential & commercial) for at least 12 months in the last 36 months • First time investor is allowed, unless the borrower is also a first-time home buyer

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Non-Arm's Length Transaction	<ul style="list-style-type: none"> • Eligible with reasonable explanation – up to UW's discretion • Ineligible types of non-arm's length transactions include, but are not limited to: <ul style="list-style-type: none"> ○ Listing Agent representing borrower as the loan officer • Borrower acting as the loan officer
Power of Attorney	<ul style="list-style-type: none"> • Allowed per FNMA, except for Cash-Out transaction
Occupancy	<ul style="list-style-type: none"> • Investment
Rate and Term Refinance	<ul style="list-style-type: none"> • Cash-back to the borrower is limited to the lesser of \$2,000 or 2% of the new loan amount • Combining 1st lien and non-purchase-money 2nd lien can be considered as rate and term if: <ul style="list-style-type: none"> ○ Non-purchase-money 2nd lien is seasoned for 12 months prior to the loan application date; AND ○ Total draws during the last 12 months prior to the loan application date does not exceed \$3,000 • Borrower can be added to the title at closing • Continuity of obligation is not required • Refinancing a prior cash-out loan after 6 months can be considered as rate and term refinance
Cash-Out Refinance	<ul style="list-style-type: none"> • 6-month title seasoning is required • Borrower is eligible for cash-out refinance on property owned by LLC, Corp, or Partnership by at least 6 months if the borrower owns 50% of the LLC, Corp, or Partnership
Cash-Out Limit	<ul style="list-style-type: none"> • Cash-out limit: <ul style="list-style-type: none"> ○ LTV > 60%: \$500K max cash-out ○ LTV ≤ 60%: \$1,000,000
Delayed Financing	<ul style="list-style-type: none"> • Delayed financing is allowed per FNMA
Texas Refinance Section 50(a)(6)	<ul style="list-style-type: none"> • Texas refinance loans that must close under Section 50(a)(6) are ineligible
Construction to Permanent	<ul style="list-style-type: none"> • Eligible
Debt Service Coverage Ratio	<ul style="list-style-type: none"> • 100% of the gross rent can be used to calculate DSCR • DSCR is calculated by: <ul style="list-style-type: none"> ○ $\text{Gross Rent} \div \text{PITIA (or ITIA for interest-only loan)}$ • For refinance transaction, subject property cannot be vacant • For refinance transaction, lease agreements are required • For refinance transaction, lower of the current lease or market rent from 1007 can be used • For purchase transaction, if the existing tenant will remain after closing, current lease agreement or tenant estoppel must be provided • Expired lease agreement that has a verbiage that states that the lease agreement will become a month-to-month lease once the initial lease term expires is allowed
Short Term Rental Income	<ul style="list-style-type: none"> • Short-term rental income can be used with 12-month rental history, which can be documented with: <ul style="list-style-type: none"> ○ 70% max LTV ○ Gross rent reduced by 20% to reflect extraordinary costs ○ Final rent amount used to calculate DSCR must be no more than 125% of the market rent ○ 12 monthly statements or annual statement AND proof of current/active listing
Asset	<ul style="list-style-type: none"> • Asset seasoning requirement: <ul style="list-style-type: none"> ○ None • Large Deposit: <ul style="list-style-type: none"> ○ None, but UW has the discretion to confirm if a large deposit is an eligible type of asset • Eligible Asset Documents <ul style="list-style-type: none"> ○ 1 month bank statement ○ Bank certification showing current balance ○ Bank-prepared and stamped 30-day transaction history print-out ○ VOD

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Asset (Cont.)	<ul style="list-style-type: none"> • Investment Accounts (stocks, bonds, mutual funds, savings bonds, etc.): <ul style="list-style-type: none"> ○ 1 month statement ○ 100% can be used as reserves • Retirement Accounts (401K, IRA, etc.): <ul style="list-style-type: none"> ○ 1 month statement ○ 100% can be used as reserves • Business funds: <ul style="list-style-type: none"> ○ CPA letter must be provided confirming borrower's % ownership in the business and confirming large withdrawal will not negatively impact borrower's business ○ Account balance up to borrower's % ownership can be used toward down payment, closing costs, and reserves 						
Gift	<ul style="list-style-type: none"> • 100% gift fund (closing costs, down payment, and reserves) is allowed • If gift funds are deposited directly into the escrow/closing agent: <ul style="list-style-type: none"> ○ Gift letter + escrow/closing agent receipt matching the gift letter/donor • If gift funds are deposited into borrower's checking/savings account: <ul style="list-style-type: none"> ○ Gift letter + 1 month bank statement + transaction history showing/matching the gift letter/donor 						
Gift of Equity	<ul style="list-style-type: none"> • Allowed under the following conditions: <ul style="list-style-type: none"> ○ Seller must be related to the borrower by blood, marriage, adoption, or legal guardianship ○ Seller must provide 12-month mortgage rating to confirm transaction is not a bail-out ○ The new loan amount may not exceed seller's existing mortgage loan amount + closing costs 						
Proceeds from Sale of REO	<ul style="list-style-type: none"> • Final settlement statement and paper trail of net proceeds must be provided 						
Interested Party Contributions	<ul style="list-style-type: none"> • Investment: <ul style="list-style-type: none"> ○ 4% of the purchase price • Interested party contribution may not exceed the total closing costs of the loan 						
Ineligible Assets	<ul style="list-style-type: none"> • Cash on hand • Bridge loan • Gifts requiring repayment • Advance on future earnings • Unsecured loan • Pledged asset • Pooled savings • Sweat equity 						
Reserve Requirement	<ul style="list-style-type: none"> • Reserve Requirement: <table border="1" data-bbox="407 1325 1057 1528"> <thead> <tr> <th>Loan Amount</th> <th># of Subject PITIA Reserve</th> </tr> </thead> <tbody> <tr> <td>\$150,000 - \$1,500,000</td> <td>None</td> </tr> <tr> <td>\$1,500,001 - \$2,000,000</td> <td>4 months</td> </tr> </tbody> </table> • Cash out net proceeds can be used as reserves 	Loan Amount	# of Subject PITIA Reserve	\$150,000 - \$1,500,000	None	\$1,500,001 - \$2,000,000	4 months
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Credit	<ul style="list-style-type: none"> • Tradeline requirement: <ul style="list-style-type: none"> ○ 3 x 12 month (open or closed) ○ Not required if 3 FICO scores report on the credit report • Authorized user account is not an acceptable tradeline • Minimum of 2 FICO scores must report on the credit report • Any frozen account must be unfrozen and re-pulled 						
Housing Payment History	<ul style="list-style-type: none"> • Private VOR or VOM is allowed (if the borrower is related to the landlord or the creditor, 12-month rating must be documented with 12-month bank statements or 12-month cancelled checks + most recent bank statement) • No mortgage late allowed within the last 12 months (0 x 30 x 12) • If borrower lives rent-free, rent-free letter must be provided (can only be from borrower's relative) 						

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Derogatory Event Seasoning	<table border="1"> <tr> <td>Bankruptcy (Ch 7, 11, or 13)</td> <td>4 years</td> </tr> <tr> <td>Foreclosure</td> <td>4 years</td> </tr> <tr> <td>Short Sale or Deed-in-Lieu</td> <td>2 years</td> </tr> <tr> <td>Loan Modification</td> <td>2 years</td> </tr> <tr> <td>NOD/NOS</td> <td>None if rescinded AND if 0 x 30 x 12</td> </tr> </table>	Bankruptcy (Ch 7, 11, or 13)	4 years	Foreclosure	4 years	Short Sale or Deed-in-Lieu	2 years	Loan Modification	2 years	NOD/NOS	None if rescinded AND if 0 x 30 x 12											
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Derogatory Accounts	<ul style="list-style-type: none"> Judgments, tax liens, charge-offs, and collections (excluding medical) must be paid in full at or before closing 																					
Disputed Accounts	<ul style="list-style-type: none"> Disputed accounts (applicable to mortgage account only) – credit supplement must be provided to show that the disputes have been resolved 																					
Liabilities	<ul style="list-style-type: none"> 30-day open account: <ul style="list-style-type: none"> Full account balance must be paid at or before closing; or Additional reserve covering the full account balance must be verified 																					
Non-Warrantable Condo	<ul style="list-style-type: none"> Acceptable non-warrantable condo project characteristic include (only 1 characteristic is allowed per file): <table border="1"> <thead> <tr> <th><u>Characteristics</u></th> <th><u>Requirements</u></th> </tr> </thead> <tbody> <tr> <td>Single Entity Ownership</td> <td> <ul style="list-style-type: none"> Up to 30% single-entity ownership if the project has 10+ units Max. 2 units owned by a single-entity if the project has 5-10 units </td> </tr> <tr> <td>Pre-Sale</td> <td> <ul style="list-style-type: none"> 45% of the total units in the project or the subject legal phase must have been conveyed or be under contract for sale </td> </tr> <tr> <td>Occupancy</td> <td> <ul style="list-style-type: none"> No max investor concentration </td> </tr> <tr> <td>Commercial Space</td> <td> <ul style="list-style-type: none"> Commercial space up to 50% </td> </tr> <tr> <td>Pending Litigation</td> <td> <ul style="list-style-type: none"> Projects involved in litigation are acceptable provided the lawsuit(s) are not structural in nature which impact the subject unit and do not affect the marketability of the project units and potential damages do not exceed 25% of HOA reserves or documentation from the insurance carrier or attorney representing the insurance carrier that the insurance carrier has agreed to conduct defense and the HOA insurance policy is sufficient to cover the litigation expense. </td> </tr> <tr> <td>HOA Budget/Reserve</td> <td> <ul style="list-style-type: none"> ≥ 5% allocation of replacement reserves required </td> </tr> <tr> <td>HOA Dues – % Delinquency</td> <td> <ul style="list-style-type: none"> Up to 25% of the units can be > 60 days delinquent </td> </tr> <tr> <td>Condo Conversion</td> <td> <ul style="list-style-type: none"> Condo conversion full gut – allowed via full project review Condo conversion non- or partial- gut – must be PERs approved </td> </tr> <tr> <td>Condotels</td> <td> <ul style="list-style-type: none"> Allowed on a case-by-case basis </td> </tr> </tbody> </table> <ul style="list-style-type: none"> Non-warrantable condo project requires full project review Non-arm’s length transaction is not allowed on non-warrantable condo project 		<u>Characteristics</u>	<u>Requirements</u>	Single Entity Ownership	<ul style="list-style-type: none"> Up to 30% single-entity ownership if the project has 10+ units Max. 2 units owned by a single-entity if the project has 5-10 units 	Pre-Sale	<ul style="list-style-type: none"> 45% of the total units in the project or the subject legal phase must have been conveyed or be under contract for sale 	Occupancy	<ul style="list-style-type: none"> No max investor concentration 	Commercial Space	<ul style="list-style-type: none"> Commercial space up to 50% 	Pending Litigation	<ul style="list-style-type: none"> Projects involved in litigation are acceptable provided the lawsuit(s) are not structural in nature which impact the subject unit and do not affect the marketability of the project units and potential damages do not exceed 25% of HOA reserves or documentation from the insurance carrier or attorney representing the insurance carrier that the insurance carrier has agreed to conduct defense and the HOA insurance policy is sufficient to cover the litigation expense. 	HOA Budget/Reserve	<ul style="list-style-type: none"> ≥ 5% allocation of replacement reserves required 	HOA Dues – % Delinquency	<ul style="list-style-type: none"> Up to 25% of the units can be > 60 days delinquent 	Condo Conversion	<ul style="list-style-type: none"> Condo conversion full gut – allowed via full project review Condo conversion non- or partial- gut – must be PERs approved 	Condotels	<ul style="list-style-type: none"> Allowed on a case-by-case basis
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Project Review	<ul style="list-style-type: none"> Limited project review required if: <ul style="list-style-type: none"> Existing (1 year or older) attached condo Full project review required if: <ul style="list-style-type: none"> New (less than 1 year) attached condo; or Non-warrantable condo Detached condo or PUDs do not require project review 																					

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Eligible Property Types	<ul style="list-style-type: none"> • SFR • PUD • Condo • Townhouse • 2-4 Units
Maximum Acreage	<ul style="list-style-type: none"> • 2 acres
Zoning	<ul style="list-style-type: none"> • Zoning must be legally permissible • If zoning is grand-fathered use or legal non-conforming: <ul style="list-style-type: none"> ○ Rebuild letter or article from subject city's building authority confirming property can be rebuilt must be provided
Accessory Dwelling Unit (ADU)	<ul style="list-style-type: none"> • 1 ADU on a SFR or 2 unit is eligible if: <ul style="list-style-type: none"> ○ Appraisal report demonstrates the improvement is typical and marketable for the area by providing at least 1 comparable sale with an ADU ○ Legal description and property tax assessment is showing the property type as SFR or 2 unit without counting the ADU • Separate rental income from the ADU is not counted toward borrower's qualifying income
Unpermitted Addition	<ul style="list-style-type: none"> • Not Allowed (on a case-by-case exception basis)
Solar Panel	<ul style="list-style-type: none"> • If solar panel is purchased free and clear: <ul style="list-style-type: none"> ○ Appraiser can give value for the solar panel ○ No other action is required • If solar panel is purchased through financing: <ul style="list-style-type: none"> ○ Original financing agreement must be provided ○ For purchase transaction, fully executed financing transfer agreement must be provided ○ Remaining principal balance on the solar financing will be counted toward CLTV of the subject loan ○ Monthly payment amount must be counted toward borrower's PITIA ○ If solar lien is in senior position to the subject loan, the solar lien must be temporarily deleted/removed through UCC-3 or must be subordinated to the subject loan ○ Appraiser may or may not give value for the solar panel • If solar panel is leased: <ul style="list-style-type: none"> ○ Original financing agreement must be provided ○ For purchase transaction, fully executed financing transfer agreement must be provided ○ Monthly payment amount does not need to be counted toward borrower's PITIA ○ Solar lien does not need to be deleted/removed or subordinated ○ Appraiser cannot give value for the solar panel • If solar panel is leased with a power-purchase agreement: <ul style="list-style-type: none"> ○ Original power-purchase agreement must be provided ○ For purchase transaction, fully executed power-purchase transfer agreement must be provided ○ Monthly payment amount does not need to be counted toward borrower's PITIA ○ Solar lien does not need to be deleted/removed or subordinated ○ Appraiser cannot give value for the solar panel
Ineligible Property Types	<ul style="list-style-type: none"> • Co-op • Manufactured home / Mobile home • Mixed use • Boarding home • Florida condo
Eligible Ownership Types	<ul style="list-style-type: none"> • Fee Simple • Leasehold (meeting agency guidelines)

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Max. # of Financed Properties	<ul style="list-style-type: none"> • 10 financed properties including subject
Max. Loan to One Borrower	<ul style="list-style-type: none"> • WMB will finance up to 10 properties or up to \$5,000,000 in unpaid principal balance, whichever is more restrictive
Property Flip	<ul style="list-style-type: none"> • Seller must provide satisfactory explanation and/or appropriate document supporting the value increase • Non-arm's length transaction is ineligible
Appraisal Requirements	<ul style="list-style-type: none"> • 1 appraisal required for loan amount < \$1,000,000 • 1 appraisal and desk review required for loan amount \$1,000,000 - \$1,999,999 • 2 appraisals required for loan amount ≥ \$2,000,000
Transferred Appraisal	<ul style="list-style-type: none"> • Transferred appraisal with the following conditions: <ul style="list-style-type: none"> ○ Desk review is required • Original appraisal must address all revision or comment requests
Desk Review	<ul style="list-style-type: none"> • Desk review is required if: <ul style="list-style-type: none"> ○ Fannie or Freddie UCDP score is > 2.5 ○ Appraisal has been transferred ○ Loan amount is \$1,000,000 - \$1,999,999 • Desk review order process: <ul style="list-style-type: none"> ○ Upon receipt of satisfactory/finalized appraisal report, WMB will create a desk review order through a 3rd party vendor ○ Desk review payment link will be sent to borrower's email ○ Upon completion of borrower's payment, desk review order will be assigned to a 3rd party reviewer ○ Upon completion of desk review, WMB will review the desk review and notify the loan officer if additional action is necessary • If the variation from the desk review is equal to or greater than -10%: <ul style="list-style-type: none"> ○ Field review must be ordered through WMB's approved AMC • Final valuation will be the lowest value appraised from the appraisal report, the desk review, and the field review
Value Seasoning (Cash-Out)	<ul style="list-style-type: none"> • For cash-out transaction, if subject was purchased less than 12 mo. ago, use lower of the: <ul style="list-style-type: none"> ○ Original purchase price + improvement cost (must be documented); or ○ Appraised value • For rate and term transaction, use the new appraised value
Floor Insurance	<ul style="list-style-type: none"> • Floor cert or equivalent must be delivered and acknowledged by the borrower 10 days prior to the note date • Flood insurance is required with coverage equal to \$250,000 (or the loan amount if loan amount is less than \$250,000) • Flood insurance premium must be paid in full prior to closing • Flood insurance must be impounded
Age of Documentation	<ul style="list-style-type: none"> • Credit documents: 90 days • Asset documents: 90 days • Appraisal documents: 120 days (can be extended for additional 60 days if 1004D is ordered prior to the 120-day expiration date) • Title documents: 90 days • CPL: 30 days
Escrow Waiver	<ul style="list-style-type: none"> • Property tax and insurance escrow/impounds can be waived • Individual state laws may supersede the above requirement
Prepayment Penalty	<ul style="list-style-type: none"> • Investment property only • 4% flat structure • Prepayment Penalty can be bought down, bought up, or bought out
Listed for Sale	<ul style="list-style-type: none"> • Rate and term – 6 months seasoning required • Cash out – 12 months seasoning required