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## Preferred Jumbo ARM

### Product Description

A 30 year, non-convertible, fully amortizing 5/1, 7/1 ARM, 10/1 ARM with a Non-conforming Loan amount fixed for the first 5 years, or the first seven years depending on the term chosen and then rolls to a one year ARM for the remainder of the Loan term; 5/1 and 7/1 Interest Only that meet the Ability to Repay Requirements.

### Product Codes

NGL51 – Preferred Jumbo 5/1 ARM  
 NGL71 – Preferred Jumbo 7/1 ARM  
 NGL10 – Preferred Jumbo 10/1 ARM  
 N5110 - Preferred Jumbo 5/1 ARM with Interest Only  
 N7110 - Preferred Jumbo 7/1 ARM with Interest Only

### Locks

30, 45, 60 Day Locks

### Loan Size Limit

2018 Minimum Loan Amount \$453,101

Maximums are:

Number of Units	Continental U.S.
One	\$ 3,000,000

### ARM Information

#### Index

1 Year LIBOR: The average of interbank offered rates for one year U.S. dollar-denominated deposits in the London market (LIBOR) as published in The Wall Street Journal.

#### Margin

A margin of 2.25% is required

#### First Adjustment Cap

The first adjustment may change the previous interest rate by no more than 2% up or down.

#### Subsequent Adjustment Cap

Each subsequent adjustment may change the interest rate by no more than 2% up or down.

#### Lifetime Cap

The lifetime cap is 5% over the initial note rate. There is no downward cap, except for the margin.

Interest Only Option (Restrictions)

- First Time Home Buyers and Non-Permanent Resident Aliens are not eligible Borrowers
- Gift funds are not permitted
- All Borrowers must occupy the subject property
- Life Estate not permitted
- Not available in Declining Markets
- This option is not available on Cash Out Refinances
- 5 years interest only period then fully amortizing over remaining 300 months
- 7 years interest only period then fully amortizing over remaining 276 months

**Rate Change Date**

First Interest Rate Change Date

NGL51 - Fifty-nine (59) months from the first payment due date.

NGL71 – Eighty-three (83) months from the first payment due date.

NGL10 – One Hundred Nineteen (119) months from the first payment due date.

Subsequent Interest Rate Change Date

Once every 12 months after the first interest rate change date.

Conversion to Fixed Rate

Conversion to a fixed rate is not permitted.

**Loan Term**

30 Year

**Underwriting**

Desktop Underwriting Approve/Eligible or Approve/Ineligible

**Note:** Ineligible for loan amount over County Loan Limits only. This product requires a manual underwrite.

No documentation waivers based on Agency AUS recommendations are permitted. Unless otherwise addressed below, Fannie Mae underwriting guidelines should be followed. Additional conditions may apply per underwriter discretion

**Important:** Interest Only Loans do not utilize Desktop Underwriting

**Ratios**

**33% Housing/38% Total DTI** (Refer to LTV/CLTV Matrix).

**May allow exception on total housing ratio up to a maximum of 43% DTI with significant compensating factors.**

#### Qualifying ARM Rate

- 5/1 ARM: The qualifying payment is the greater of the Note Rate + 2% or the Fully Indexed Rate\*.
- 7/1 ARM: The qualifying payment is based on the greater of the Note Rate or the Fully Indexed Rate\*.
- 10/1 ARM: The qualifying payment is based on the greater of the Note Rate or the Fully Indexed Rate\*.

Note:\* The fully indexed rate is defined here as the index plus the margin which is rounded to the nearest one-eighth percent.

#### Qualifying Interest-Only ARM Rate

- 5/1 ARM – Interest Only: The qualifying payment is the greater of the Note Rate + 2%, or the Fully Indexed Rate amortized over 300 months.
- 7/1 ARM – Interest Only: The qualifying payment is based on the greater of the Note Rate, or the Fully Indexed Rate amortized over 276 months.

#### Qualified Mortgages

Florida Capital Bank Mortgage offers financing only to Qualified Mortgages that are originated and closed in accordance to Agencies QM Guidelines and FLCB's underwriting guidelines.

**Note:** Interest-Only option (5 and 7 years ARMS) must meet the "Ability To Repay" requirements.

#### Credit Score and Tradeline Requirements

##### Minimum Credit Score 720

Representative score used to qualify will be based off the lower of 2 or middle of 3. Credit report must have at least 2 FICO scores for underwriting consideration. Qualification is off of the lowest representative score from all borrowers on the transaction.

##### Tradeline Requirements

In order for the score to be considered to be predictive a minimum of 4 tradelines is required and 5 years of established credit history.

No current delinquencies are allowed.

##### Non-Traditional Credit

Not Allowed

##### Credit Report Expiration

90 days

### Age of Credit Documents

- 90 days for existing construction
- 120 days for new construction

Credit documents include credit reports and employment, income, and asset documentation. The age of the documents is measured from the date of the document to the date the note is signed. All of the above credit documents, employment, income, and asset documentation, cannot be 30 days prior to the application. Also, the loan must be submitted to FLCB within 30 days of loan application.

Full Documentation required. If hand written paystubs are supplied, they must be accompanied by a computer generated ledger print out from the company along with a full written VOE and W2's documenting a full 3 year history.

### Real Estate Owned

All secured and/or unsecured real estate must be disclosed with taxes and insurance on the 1003. Documentation to confirm the P&I, insurance, HOA dues or other property-related expenses must be provided.

### Max Financing Restrictions

Declining Markets, notated by the appraiser or DU, are limited to the lessor of 70% or the maximum LTV per matrix.

### Max Number of Properties Financed

The maximum number of loans in this product, per borrower, eligible for purchase by Florida Capital Bank Mortgage is one (1). A borrower may own a max of 10 properties, including Owner Occupied Subject property. **Note: all Free and clear properties must be listed on the 1003 in which Taxes and Insurance must be included into the ratios for qualification purposes. No more than three (3) financed properties including subject mortgage.**

### Short Sales

Short Sales must be disclosed at the time of submission to FLCB; the following documentation will be required:

- A Contract Addendum and
- Documentation from the seller's lien holder approving the transaction.

**Note:** Short Sales are not allowed on Refinance Transactions

**Eligible Transaction**

Purchase  
Rate/Term Refinance (cash out limited to \$2000)  
Cash Out Refinances

**Note: Trusts** - Only Inter Vivos Revocable trusts are allowed, using FNMA Standard guidelines.

**Ineligible Transactions**

Texas 50 (A)(6) not allowed  
Construction to Perm Financing is not allowed

**Eligible Property Types**

Eligible Property Types

- 1 Unit Single Family Detached or Attached
- PUDs
- Warrantable Condos including Florida Condominiums
- Maximum Acres is 15
- [Properties with Solar Panels are eligible per Fannie Mae guides](#)
- **Note: Properties that are located within lava zones 3 through 9 on the island of Hawaii are eligible for financing.**

**Ineligible Property Types**

<b>S Corporation;</b> business owned property	Time-share projects	Houseboats
Condo-hotels	<b>2-4</b> unit properties	“Live-Work” loft-style condominiums
Cooperatives	Metal Buildings	Unimproved land (Lot Loan)
Manufactured Homes	Income Producing Farms	Residences lacking kitchen and full bathroom facilities
Non-Warrantable Condos	Agricultural Properties	Properties with deed restrictions that limit transferability of title, or contain a “first right of refusal” provision
Investment properties	Properties with more than 15 acres	Rural Properties
Properties in Lava Zones 1 and 2		

**Note:** Hawaiian lava flow maps and other information are available online at the U.S. Geological Survey Hawaiian Volcano Observatory website at

[http://hvo.wr.usgs.gov/hazards/FAQ\\_LavaFlowHazardZone/](http://hvo.wr.usgs.gov/hazards/FAQ_LavaFlowHazardZone/)

## Eligible and Ineligible Borrowers

### Eligible Borrowers

- First-Time Homebuyer is defined as a borrower who has not owned a home in the last three (3) years are eligible under specific criteria:
  - Available only on fully amortizing ARMs
  - Maximum DTI 33/38 no exceptions
  - Secondary financing is not acceptable (no purchase money HELOC)
  - Must document a minimum of 12 months of documented rental payment history. Borrowers living rent free with no documented rental payment history may be considered on an exception basis.
  - Housing payment shock: the new housing payment is limited to 1.5 times of current rental housing payment. 2.0 times payment shock may be considered at a variance.
- US citizens
- Permanent Resident Aliens
- Non-Permanent Resident Aliens:
  - Allowed only under fully amortized ARM product,
  - Primary Residence only,
  - Only H1B visa is acceptable
  - Must have 24 months of employment with company that originally sponsored the H1B visa.
  - Must have 24 months of being in the U.S. and meet credit score and reserves requirements per matrices,
  - Cannot have any form of diplomatic immunity,
  - 80% LTV for loan amounts up to \$650,000,
  - 75% LTV for loan amounts up to \$1,000,000,
  - 70% LTV for loan amounts up to \$1,500,000 (available only in CA, DC, NY, VA and WA),

### Ineligible Borrowers

- Foreign Nationals
- First time Homebuyers
- Non-occupying borrowers
- Non-Permanent resident aliens with Interest Only ARM feature
- Irrevocable Trusts
- LLC's



**Product Matrix ARM Products (Non-Interest Only)**

**LTV/CLTV/Credit Score/DTI/Reserves**

Primary Residence					
Purchase and Rate Term Refinance					
Maximum Loan Amount	LTV/CLTV SFR/Det PUD	LTV/CLTV Att PUD/Condo	Reserves*	FICO	Max DTI
\$453,101 - \$650,000	80 / 80%	75 / 75%	18 Months PITIA	720	33%/38%
\$650,001 - \$1,000,000	80 / 80%	70 / 70%	18 Months PITIA	720	33%/38%
\$1,000,001 - \$1,500,000	75 / 70%	70 / 70%	24 Months PITIA	740	33%/38%
\$1,500,001 - \$2,000,000	70 / 70%	70 / 70%	24 Months PITIA	740	33%/38%
\$2,000,001 - \$3,000,000**	60 / 70%	60 / 60%	24 Months PITIA	740	33%/38%

The Max LTV / CLTV in declining market as notated by the appraiser or DU is limited to the lessor of 70% LTV/ 70% CLTV when the loan amount is up to \$1 million dollars; or 55%LTV/65% CLTV when the loan amount is up to \$2 million dollars.

Max Total DTI = 43% (By Exception Only with significant compensating factors)

If escrows are waived, additional reserves in the amount of 12 months of T&I (taxes and insurance) are required in addition to the base program.

\* Reserves must be calculated based of the qualifying PITIA for the subject property. Please refer to the reserve section of these guides for full description of requirement

\*\*Extended turn times of up to 5 business days apply on loan amounts > \$2 million.

Second Home					
Purchase and Rate Term Refinance					
Maximum Loan Amount	LTV/CLTV SFR/Det PUD	LTV/CLTV Att PUD/Condo	Reserves*	FICO	Max DTI
\$453,101 - \$650,000	80 / 80%	70 / 70%	18 Months PITIA	720	33%/38%
\$650,001 - \$1,000,000	75 / 80%	70 / 70%	24 Months PITIA	720	33%/38%
\$1,000,001 - \$1,500,000	70 / 70%	70 / 70%	30 Months PITIA	740	33%/38%
\$1,500,001 - \$3,000,000**	60 / 70%	60 / 70%	30 Months PITIA	740	33%/38%

The Max LTV / CLTV in declining market as notated by the appraiser or DU is limited to the lessor of 70% LTV/ 70% CLTV when the loan amount is up to \$1 million dollars; or 55%LTV/65% CLTV when the loan amount is up to \$2 million dollars.

Max Total DTI = 43% (By Exception Only with significant compensating factors)

If escrows are waived, additional reserves in the amount of 12 months of T&I (taxes and insurance) are required in addition to the base program.

\* Reserves must be calculated based of the qualifying PITIA for the subject property. Please refer to the reserve section of these guides for full description of requirement

\*\*Extended turn times of up to 5 business days apply on loan amounts > \$2 million.

Primary Residence Full Doc Cash out Refinance					
Maximum Loan Amount	LTV/CLTV SFR/Det PUD	LTV/CLTV Att PUD/Condo	Reserves*	FICO	Max Ratios
\$453,101 - \$650,000	75%/80%	75%/75%	18 Months PITIA	720	33%/38%
\$650,001 - \$1,000,000	70%/80%	70%/70%	18 Months PITIA	720	33%/38%
\$1,000,001 - \$1,500,000	60%/70%	50%/50%	24 Months PITIA	740	33%/38%
\$1,500,001 - \$3,000,000*	50%/70%	50%/50%	24 Months PITIA	740	33%/38%
<p>Maximum Cash Out: \$500,000            Must have 5 years ownership            Max LTV / CLTV in declining market is 70%. Declining Markets, notated by the appraiser or DU, are limited to the lessor of 70% LTV/ 70% CLTV when the loan amount is up to \$1 million dollars; or 55%LTV/65% CLTV when the loan amount is up to \$2 million dollars.            Max Total DTI = 43% (By Exception Only with significant compensating factors)            * Reserves must be calculated based of the qualifying PITIA for the subject property. Please refer to the reserve section of these guides for full description of requirement            If escrows are waived, additional reserves in the amount of 12 months of T&amp;I (taxes and insurance) are required in addition to the base program.            **Extended turn times of up to 5 business days apply on loan amounts &gt; \$2 million.</p>					

**Product Matrix Interest-Only ARM Products**

Primary Residence Purchase and Rate Term Refinance Interest-Only ARM					
Maximum Loan Amount	LTV/CLTV SFR/Det PUD	LTV/CLTV Att PUD/Condo	Reserves*	FICO	Max DTI
\$453,101 - \$650,000	70 / 70%	60 / 60%	18 Months PITIA	740	33%/38%
\$650,001 - \$1,000,000	70 / 70%	60 / 60%	24 Months PITIA	740	33%/38%
\$1,000,001 - \$2,000,000	60 / 70%	50 / 60%	30 Months PITIA	740	33%/38%
<p>* Reserves must be calculated based of the qualifying PITIA for the subject property. Please refer to the reserve section of these guides for full description of requirement</p> <p>Properties notated by the appraiser or by DU as being in a declining market are not eligible for financing under the Interest-Only ARM product.</p> <p><b>No DTI exceptions permitted.</b></p> <p>If escrows are waived, additional reserves in the amount of 12 months of T&amp;I (taxes and insurance) are required in addition to the base program.</p>					
Second Home Purchase and Rate Term Refinance Interest-Only ARM					
Maximum Loan Amount	LTV/CLTV SFR/Det PUD	LTV/CLTV Att PUD/Condo	Reserves*	FICO	Max DTI
\$453,101 - \$500,000	65 / 65%	60 / 60%	24 Months PITIA	740	33%/38%
\$500,001 - \$650,000			30 Months PITIA	740	33%/38%
\$650,001 - \$1,000,000			30 Months PITIA	740	33%/38%
<p>* Reserves must be calculated based of the qualifying PITIA for the subject property. Please refer to the reserve section of these guides for full description of requirement</p> <p>Properties notated by the appraiser or by DU as being in a declining market are not eligible for financing under the Interest-Only ARM product.</p> <p><b>No DTI exceptions permitted.</b></p> <p>If escrows are waived, additional reserves in the amount of 12 months of T&amp;I (taxes and insurance) are required in addition to the base program.</p>					

**Occupancy**

Primary Residence  
Second Home

**Available Transactions**

- Primary Residence: Purchase, Rate Term Refinance and Cash Out
- Second Home: Purchase and Rate Term Refinance

**Acceptable Forms of Ownership:**

Fee Simple with title vesting as:

- Individual
- Joint Tenants
- Tenants in Common

**Project Approval**

Full review required to be completed by The Florida Capital Bank Condo Review Department prior to loan file submission.

**The Florida Capital Bank Condo Review Department**

**941- 896-3997– Phone**

**941-747-9725 – Fax**

Send documents via e-mail at [condoreview@flcb.com](mailto:condoreview@flcb.com)

***Limited reviews are not allowed.***

**Appraisal Requirements and Process**

Loan Amount	Required	Further review requirements	Discrepancy Resolution
<1,500,000	1 full appraisal* with interior photos	Desk Review* will be required on all transactions to support value and manufacturing quality of the appraisal	If Desk review does not support value and/or discrepancies cannot be resolved a Field Review will be required
>= 1,500,000	2 full appraisals with interior photos	The lower of the 2 values will be utilized for LTV calculations	If there are discrepancies in manufacturing quality between the 2 appraisals a Desk Review and or Field Review may be required per u/w discretion

**All discrepancies must be resolved between all appraisal products**

**\*The Originator (Broker/NDC) must follow the Jumbo Appraisal Process for this product posted in FLCB's resource center. Furthermore, a Desk Review {Collateral Desktop Analysis (CDA)} must be ordered directly through Clear Capital Collateral Desktop Analysis (CDA). For more information, refer to the FLCB Resource Center "Jumbo Appraisal Order Process".**

Note: When 2 appraisals are required, the LTV will be determined by the lower of the 2 appraised values as long as the lower appraisal supports the value conclusion.

Appraisals are required at loan submission on all refinance loans. For all transactions the appraisal must have been requested through InHouse website per the AIR (Appraiser Independence Requirements) Process prior to uploading/submitting to the FLCB website.

**The appraisal(s) are good for 90 days, or 120 days with a recertification of. A new appraisal is required after 120 days of the appraisal**

**Private Road Requirements**

If the property is on a community-owned or privately owned and maintained street, there should be an adequate, legally enforceable agreement or covenant for maintenance of the street that includes the following provisions:

- Responsibility for payment of repairs, including each party’s representative share, and
- Default remedies in the event a party to the agreement or covenant fails to comply with his or her obligations, and
- The effective term of the agreement or covenant, which in most cases should be perpetual and binding on any future owners.
- The agreement or covenant must be recorded in the land records of the appropriate jurisdiction.

**Seasoning Requirements (Primary and Second Homes)**

LTV/CLTV calculations:

Transaction	Calculation Based On
<b>Purchase</b> Primary or Second Homes	The LTV/CLTV is based on the lesser of the sales price or appraised value.
<b>Rate and Term Refinance</b> Primary or Second Homes	The LTV/CLTV <sup>(1)</sup> is based on the current appraised value.
<b>Cash-Out Refinance</b> <sup>(2)</sup> Primary Residence ONLY	The LTV/CLTV <sup>(1)</sup> is based on the current appraised value.

<sup>(1)</sup> If the property has been owned less than 12 months and the appraisal show a substantial increase in value from the original purchase price, the appraiser should ensure the increase in value is valid.

<sup>(2)</sup> Loans with no outstanding liens: Calculate the LTV based on the lesser of the original sales price or the current appraised value if the property was purchased within 6 to 12 months prior to the application date for the new loan transaction.

### Rate Term Refinance (Primary Residence and Second Home)

Transactions meeting the following criteria are considered as Rate Term (i.e., No Cash-out) refinances:

- Rate and Term refinances are allowed if the mortgage being refinanced has been seasoned for a minimum of 6 months with no late payments in the past year. **Note that if the appraised value shows a substantial increase that cannot be supported, the lower of either the acquisition cost or the appraised value will need to be used for LTV/CLTV calculations.**
  - If the last transaction on the property was a cash-out refinance within the last six months; the new mortgage must be treated as a cash-out refinance. Note date to note date is what is used to calculate the six months.
- Pay off of the current mortgage (principal balance plus accrued interest, and any required prepayment penalty, only; other costs such as late fees and past-due amounts may not be paid with the new loan).
- Payoff outstanding HELOC lien (even though it was not a purchase money HELOC) so long it has been seasoned for 24 months or longer with \$0 (zero) draws in the most recent 24 months.
- It is permissible to pay off a HELOC that is seasoned for 24 months so long the outstanding balance has not increased by more than \$5,000 over 24 months as shown in the credit report; if so, the new first mortgage could be classified as a rate and term refinance.

If the first mortgage is a Home Equity Line of Credit (HELOC) a copy of the Closing

- Disclosure/Settlement Statement from the borrower's purchase of the subject property must be provided evidencing the proceeds were **used in their entirety to acquire the subject property.**
- Pay off (as defined above) of any subordinate mortgage lien that was **used in its entirety to acquire the subject property** – regardless of seasoning.
- A copy of the Closing Disclosure/Settlement Statement from the borrower's purchase of the subject property must be provided evidencing that any subordinate financing was used in its entirety to acquire the subject property.
- Standard loan fees (e.g., closing costs on the new mortgage; pre-pays, such as interest, taxes, insurance, etc; and points)
- Incidental cash to the borrower not to exceed \$2,000 (does not apply to owner occupied refinances of property located in Texas, no cash to borrower is permitted at closing).

**Note:** If there is knowledge that the first lien being paid off was a cash-out refinance transaction with an LTV greater than 80%, the new loan would have to be structured as a cash out transaction.

### Cash-Out Refinances (Primary Residence ONLY)

The maximum Cash Out amount is \$500,000.

- Any refinance transaction not meeting the requirements for a rate term refinance is a cash-out refinance.
- More than one cash out refinance within 5 years of property acquisition is permitted; however, if more than one cash out occurs during the first five years since acquisition the maximum LTV permitted will be adjusted downward by 10% (please refer to matrix). Any cash out refinance within three years of property acquisition; however, the loan amount may not exceed the original purchase price unless documented major home improvements can be verified.
- If the last transaction was a cash out refinance within the last six months (amortizing ARM) or sixty months (Interest Only ARM); the new mortgage must be treated as a cash out refinance. The Note date of the existing loan to the application date of the new loan is what is used to calculate the six or sixty months.
- Properties listed for sale within the past 12 months are not eligible.

- Properties inherited within the past 60 days are not eligible.

Note: Delayed financing being defined as acquisition with cash and the new loan will replenish cash. These can be handled as a Rate and Term refinance for LTV and pricing purposes. Verification of purchase and verification of source for cash acquisition is required.

**Important:** FLCB’s Early Pay-off contractual agreement will apply in all instances.

**Properties listed for Sale**

- Rate Term Refinance: Properties must not be listed for sale within 180 days from loan application date.
- Cash Out Refinance: Properties listed for sale within 12 months of loan application is are not eligible

**Non-Arm’s Length Transactions**

Not Allowed

**Important:** This restriction includes transactions where the borrower is representing himself/herself.

**Credit History**

Established Credit	Minimum 5 years established credit history
Housing Payment	No 30 days late payments in the past 24 months
Collections	Maximum collections outstanding is \$1000, subject to individual evaluation

Derogatory Credit

Bankruptcy (Chapter 7, Chapter 11 or Chapter 13) – 7 years or more since Discharge

Foreclosure – 7 years or more since completion

Short Sale or Pre-Foreclosure: 7 years or more since completion

Modification of any mortgage that resulted in forgiveness of debt is not permitted regardless of seasoning and/or circumstance.

Credit inquiries

Borrower letter of explanation is required for each individual inquiry listed on the credit report within the past 120 days. Any new debt must be included into the DTI ratios.

Debt Payoff /Pay down

Not allowed to pay off or pay down debt in order to qualify. All debts must be included in ratios

Note: only exception is the simultaneous sale of current home, Closing Disclosure/Settlement Statement will be required to document payoff and exclusion of debt.

Payment Calculation for loans with Subordinated HELOCs

The qualifying payment for conventional conforming loans with subordinate Home Equity Lines of Credit (HELOCs) is as follows: If there is not a payment shown on the credit report then must be qualified at 1% of the HELOC limit.



### Credit Supplements

If a credit supplement is needed it must meet the following:

- Be from the original credit reporting agency,
- Must contain the name and phone number of person the information was verified with, and
- Must state the reason for update/removal of accounts.

### **Employment History**

Three (3) years of employment history and income documentation is required

### **Income Requirements**

Verbal Verification of employment to be completed by the loan originator on all loans and it must document borrower's job title, start date (month/day/year), currently active status, company name, identify name and title and phone # of employer providing information (must be from HR source or authorized employee of company). Phone # of employer must be a listed number which will be able to be verified through 3<sup>rd</sup> party sources. The individual who verified the above information must sign and date the verification form.

Income sustainability must be carefully analyzed and established to support the loan repayment over the loan term. Income sources that are not sustainable are generally not acceptable sources of income.

The paystub must be dated no earlier than 30 days prior to the initial loan application date; it must include year-to-date (YTD) income covering a period of at least 30 days and must clearly identify the name of the employer.

Paystubs: If hand written paystubs are supplied, they must be accompanied by a computer generated ledger print out from the company along with a full written VOE and W2's documenting a full 3 year history.

### W-2's for all job's held in the prior 3 years

Clarification for Electronic, Faxed, or Computer-Generated documentation

Verification documentation that is faxed, computer-generated, or downloaded from the Internet, including on-line bank and investment statements is allowed. Documentation must meet all of the following requirements:

- The source of the information must be clearly identified (such as information from the Internet or "fax" banner at the top of the document).
- The documents must clearly identify the name of the depository, investment institution, or borrower's employer.
- The documents must include essential information the same as hard-copy original documents with the account owner's name, full account number, borrower's employment, income, assets, and funds for closing (as applicable).

Note: Documents must be legible and free of any alterations, erasures, "whiteouts," or similar indications changes have been made.

Capital Gains must follow Fannie Mae requirements and be documented according to Fannie Mae with a

two (2) year history of capital gains income by obtaining copies of the borrower's signed federal income tax returns for the most recent two years, including IRS Form 1040, Schedule D as long as the borrower provides current evidence that he or she owns additional property or assets that can be sold if extra income is needed to make future mortgage loan payments. Note: Capital losses identified on IRS Form 1040, Schedule D, do not have to be considered when calculating income or liabilities, even if the losses are recurring.

Employment by Relatives or transaction participants:

If the transaction is a non-arm's length, such as the borrower is employed by a relative, a closely held family business, the property seller, real estate agent, or any party to the real estate transaction, the following documentation must be obtained:

- Borrower's signed and completed personal federal income tax returns for the most recent three year period, and
- Most recent YTD paystub documenting at least 30 days of income
- Full written Verification of employment form (VOE), and
- W2's for the most recent three tax years
- Current income reported on the VOE or pay stub may be used if it is consistent with W-2 earnings reported on the tax returns.

Self Employed Borrower:

Tax Returns, with all schedules for the most recent 2 years must be provided accompanied by IRS tax transcripts for the most recent 3 years.

If tax returns for the most recent fiscal year are not included due to preparation constraints a 12-month profit and loss statement for that period is required to determine the continuance or stability of the borrower's income. When there is probability of instability or declining earnings for the borrower, the borrower's company or the borrower's line of work, additional income documentation is warranted.

Verbal verification of employment is required on self-employed borrowers, the following documentation is acceptable: CPA letter, business license, online documentation or other documentation to validate business is currently active.

When Tax returns are required:

- The tax returns must be complete with all schedules, including K1's
- Business Tax returns are required if income from the business is used in qualifying or there is a loss affiliated with the business. Fannie Mae form 1084 will be utilized in evaluating income.
- If the 4506 Transcripts reflect a business with positive income, the personal and business tax returns are not required if it can be determined that the income used to qualify is not generated from the business. If the 4506 transcripts reflect a business loss, personal and business tax returns are required.
- If there is a discrepancy between properties shown on Schedule E and the 1003, the discrepancy should be resolved and documentation obtained supporting the property was sold.

Self Employed Borrowers are considered to have a 25% or greater ownership interest in a business.

If a borrower is self-employed where self-employment income is not used to qualify, and the 4506 Transcripts show a business loss, then the borrower's individual federal tax returns are required. FLCB may require additional documentation in order to fully evaluate the impact of a business loss on the income

used for qualifying.

Self Employed Borrowers who pay themselves via W2's:

W2's will be required and must match tax returns and transcripts.

Commission income:

Must have a two year history of receipt to use as qualifying income, to document, obtain all of the following:

- Most recent YTD paystub documenting at least 30 days of income
- W2's and/or 1099's and Full Written Verification of Employment covering the most recent three years.
- Complete signed individual federal tax returns for the most recent year reflecting at least six months of commission income.
- Employee paid business expenses reflected on the borrower's tax returns must be deducted from the borrower's gross commission income when calculating income.

Tip Income:

Tip income, averaged over a three-year period, may be included for loan qualification purposes provided it meets the following requirements and documentation is provided:

- The borrower must have a three year history evidencing receipt of tip income.
- The tip income must be stable or increasing, and likely to continue.
- Provide a Verification of Employment Letter or three years of personal income tax returns (including W-2's)
- A current paystub with year-to-date earnings for the most recent 30 days.

Note: If the tip income is not reported on the pay stub or income tax returns, it may not be used for qualifying or as a compensating factor.

**Important: Tip income is not acceptable to be used as qualifying income on Interest-Only product offering.**

Bonus:

Must have a three year history of receipt to use as qualifying income, to document, obtain all of the following:

- Most recent YTD paystub documenting at least 30 days of income
- W2's covering the most recent three years.
- Verification of employment or letter from employer supporting continuance.
- Note: Exceptions for reduced history of receiving bonus income on a case by case basis.

Overtime, second jobs or additional job:

Must have a three year history of receipt and be likely to continue for the next three years, to document, obtain all of the following:

- Most recent YTD paystub documenting at least 30 days of income
- W2's covering the most recent three years
- A full written verification of employment is required supporting the overtime used for qualifying

**Important: Income derived from these sources is not acceptable to be used as qualifying income on Interest-Only product feature.**

Overtime only:

The employer must verify that the overtime is likely to continue.



Written VOE

Written VOE's are acceptable in combination with a paystub supporting the supplied information. It is acceptable if the employer states month/year and neglects to enter the exact date unless the borrower has only been on the job for less than one year. Year to Date information is required on VOE's  
Note: If VOE utilized then OT, Bonus, Tip or Commission income must be broken out from Base Salary.

Trailing Secondary Wage Earner Income

Use of trailing secondary wage earner income is not allowed

Foreign Income

Foreign income (income generated from non-U.S. sources) may be used only if its stability and continuance can be verified, and is supported by U.S. Federal Tax Returns for the most recent three years. If the income is paid in a foreign currency the file must contain a printout evidencing the source used for the conversion of the foreign currency into U.S. dollars. The income must also be verified in the same manner as U.S. income sources.

Automobile Allowance Income

Automobile Allowance is not allowed

Employment Contracts

Employment contracts may be used to verify previous, current and future employment. If a fully executed employment contract exists between the borrower and the new employer, all pre-requisites for employment must have been satisfied.

The borrower must have started employment prior to the closing date. A paystub covering a full 30 days will be required prior to final approval. If a full 30 days has not been worked prior to final approval, a full written VOE and the first paystub is required prior to final approval. Borrowers must be employed at the time of closing.

Alimony/Child Support/Separate Maintenance

Spousal or child support must continue at least three years after the date of the original mortgage loan application to be considered. FLCB will accept as verification of the award of spousal and/or child support one of the following documents: a copy of the divorce decree, the formal separation agreement, court records, any other type of legal agreement or court decree that describes the payment terms, or a copy of any applicable state law that requires alimony, child support or maintenance payments and specifies the conditions under which the payments must be made.

The document must specify the amount of the award and the period of time over which it will be received. The borrowers must provide evidence that the funds have been received for the last 12 months. Acceptable evidence would be deposit slips, canceled checks, bank statements or signed Federal income tax returns. A 6 to 12-month documented history of receipt of income is acceptable providing the income does not exceed 30% of the total gross qualifying income.

Alimony is taxable and reflected on page one of the borrower's personal tax return. Child support is tax exempt and therefore, can be grossed up. Documentation for alimony, child support and/or household maintenance income is not required if the borrower does not use the income to qualify (or it is not used as a compensating factor.)

### Rental Income

The borrowers' federal income tax returns must verify at least 2 years of property management history. If property is not listed on tax returns due to recent purchase then a fully executed 1 year lease may be provided. Proof of recent purchase must be provided with a copy of the fully executed Closing Disclosure. Supporting documentation required for taxes and insurance on all real estate properties listed on the 1003. 25% vacancy factor must be used to determine rental income. Supporting documentation required for taxes and insurance on all real estate properties listed on the 1003.

### Retirement Income from 401(K)/IRA/KEOGH

If retirement income is paid from a distribution of 401(k), IRA, or Keogh retirement account, the Underwriter must document ownership of the assets with copies of recent statements, that this income is expected to continue for at least three years after loan closing, and that the borrower has unrestricted access without penalty to the accounts (the IRS imposes a penalty for early withdrawal to anyone less than 59 ½ years old). Also, the borrower must provide at least one of the following to document the amount of the gross income benefit:

- Letters from the financial advisor/program administrator providing the income evidencing the recurring distribution amount,
- Copies of retirement award letters,
- Copies of signed federal income tax returns,
- 1099 forms, or
- Proof of current receipt using either bank statements or copy of the benefits check received.

If the assets are in the form of stocks, bonds or mutual funds, 70% of the remaining value after any applicable costs for the transaction must be used to determine the number of distributions remaining to the account.

### 4506-T Requirement

A 4506-T form signed by the borrowers must be provided in initial package. Tax Transcripts are required documenting the most recent 3 years and will be validated against documentation in file.

**Important:** W-2 Transcripts are not permitted to validate income for wage/salaried earners – full tax transcripts are required.

## **Assets Requirements**

### Assets Verification

Pooled funds not allowed.

### Bank Account Statements

The deposit for a recently opened account or a large increase must be explained and sourced. Copies of the borrower's bank statements must reliably document funds were not recently borrowed by the borrowers, particularly if the account was opened within the past 90 days or if the balance significantly increased within the past few months. The statements must show that the funds were accumulated prior to funding.

Checking and Savings Accounts

- Funds held in checking, savings, certificate of deposit, money market, stock and/or securities accounts are acceptable sources of funds as long as the most recent two months, all pages, of the account statements are provided. Unverified funds are not acceptable for the down payment or closing costs.
- If the account is shown in the name of the borrower only it is sufficient to indicate the borrower(s) has access to all the funds.
- If the account is in the name of the borrower and another person or persons, obtain a letter from the non-borrowing co-depositor(s) stating the relationship with the borrower and that the borrower has full access and use of all the funds for this transaction and for reserves.
- In cases where the borrower has a joint account with someone other than the co-borrower(s), if a VOD is utilized it must clearly show the borrower has authorized access to all the funds.
- Indications of borrowed funds must be investigated. This includes recently opened accounts, recent large deposits, or account balances that are considerably greater than the average balance over the previous few months. A written letter of explanation along with verifying the source of funds is required to ensure no new debt has been obtained.
- All large deposits must be sourced.
- Bank statements must be within 30 days of application and within 90 days of closing
- Bank statements provided must include all pages of the statements

Cash Deposit on Sales Contract (Earnest Money)

Earnest Money deposits on sales contracts must be verified and shown on the Closing Disclosure

Verification of Deposit's (VOD's)

FLCB requires at least 2 months of bank statements covering 60 full calendar days for funds to close that include all pages of the statements. If a VOD is utilized, 30 days' worth of bank statements will also be required as VOD's are not allowed as the sole document to verify assets. The combination of the VOD and bank statements must average 2 months' worth of bank information/transactions for funds to close. Verification of Deposit's are only allowed if in combination with at least a full 30 days' worth of bank statement(s) in order to provide required funds documentation for the loan transaction.

Source of Funds- Business Assets

Business funds are used for down payment, closing costs and/or reserves:

When a Borrower has insufficient personal liquid assets to qualify or close, but has sufficient verified funds in an owned business, the business funds may represent an adequate source of down payment and reserves if the following conditions are met:

- Borrower must have 100% ownership of sole proprietor business, Partnership or Corporation Enterprise and this ownership must be validated and confirm that the borrower has 100% access to the funds.
- The accountant for the business must comment on how it will impact the strength and viability that the withdrawal of the funds will have on the business. If the accountant states that there will be a negative impact, the use of the funds will not be permitted.
- Must comment on any potential tax implications on funds received
- Verification of funds in the account is required. Large deposits that are not in line with business revenue/income stream must be explained and verified/sourced.
- Funds cannot be advancement against future earnings or future cash distributions
- Cash flow analysis is required
- Business average annual cash flow must be greater than the amount to be withdrawn/reserve
- Cash on company year-end balance sheet for each of the previous three years is greater than the amount to be withdrawn/reserves.
- This information is found on line 1 of the schedule L for the Partnership, S-Corporation and the Corporation.
- A three-year history of a balance greater than or equal to the amount being considered for reserves or down payment is required.
- Two years of the schedule L will show three years of cash on hand for the company

Verification of Stocks, Bonds, Mutual Funds, and Retirement Accounts for Reserves

The following calculations should be used when determining the value of the asset being used for reserves:

Stocks, bonds, mutual funds and Personal Retirement accounts:

- 70% of the vested value may be used as reserves (so long these are non-retirement accounts).
- 60% of the vested value may be used as reserves with terms of withdrawal verified (if these are retirement accounts whether personal retirement or employer related).

Note: In addition, stock options and non-vested, restricted stock are no longer eligible for use as reserves

Proof of Liquidation stocks, bonds, mutual funds or retirement accounts

Proof of liquidation when used for down payment and closing costs must be documented with:

- Borrower's ownership of the asset, and
- Value of the asset at the time of sale or liquidation, and
- Borrower's actual receipt of funds from the sale or liquidation

**Note:** When funds from retirement accounts are used for reserves, the funds do not need to be withdrawn from the accounts.



#### Gift Funds

- Not allowed with Interest Only amortization feature.
- Gift funds are permitted on Primary Residence occupancy under the fully amortizing ARM feature if the borrower makes a contribution equal to 5% of the sales price from own funds. If the LTV/CLTV is 70% or less, the entire down payment may be derived from a gift.
- Only acceptable donors are: Relatives, domestic partner or fiancé/fiancée.

#### Gift documentation requirement:

- A fully executed gift letter listing the donor's name, telephone number, complete address with city, state and zip code, the donor's relationship with the borrower, and the dollar amount for the gift along with the date funds were/will be transferred, state that no repayment is expected or required, identify the subject property being purchased, and the donor's bank account institution; **or**
- The loan application is to reflect the donor's name, telephone number, complete address with city, state and zip code, the donor's relationship with the borrower, and the dollar amount for the gift (donor's signature is not required when the gift information is included on the loan application).
- If the gift funds have already been transferred to the borrower's bank account prior to the loan application, or the gift is transferred at closing as documented below:
  - Verification that sufficient funds to cover the gift are either in the donor's bank account or have been transferred to the borrower's bank account is required. Acceptable documentation includes the following:
    - A copy of the donor's cancelled check and the borrower's deposit slip, or
    - A copy of the donor's withdrawal slip and the borrower's deposit slip, or
    - A copy of the donor's check to the closing agent, or
    - A closing disclosure/settlement statement showing the receipt of the donor's check.
  - When the gift funds are not transferred prior to loan closing, documentation verifying that the donor gave the closing agent the gift funds in the form of a certified check, a cashier's check or other official check reflecting the donor's name as the remitter and the donor's account information of where the funds came from.

**Reserves Requirement**

Reserves Requirements

- The total aggregate reserve levels remain unchanged per the eligibility matrix; however, the non-retirement liquid asset component of reserves are now reduced from 50% of reserves to 6 months PITIA for the subject property.
- Additional reserves in the amount of 6 months of PITIA for properties owned in addition to the subject property are required. The reserves for other properties owned can be derived from retirement assets.
- If escrows are waived, additional reserves in the amount of 12 months of T&I (taxes and insurance) are required in addition to the base program. These additional reserves must be from non-retirement assets.
- Use of Business Assets is acceptable as long as the Borrower is 100% owner of the business and withdrawing the business funds will not affect the business ability to continue operating and meetings its business and financial obligations.

The following cannot be used to meet reserve requirements:

- Gift funds
- Proceeds from cash out transactions
- Bridge loans
- Loans secured by other assets
- Sale of non-real estate assets

**Max Seller Contributions**

Property Type	LTV/CLTV	Contribution
Primary Residence	All	3%
Second Home	All	0%

**Secondary Financing**

Outside secondary financing is permitted. Secondary financing must be provided by a financial institution. No seller held seconds allowed

**Disaster Policy for Properties Affected by Disasters**

The disaster-area policy becomes effective as of the incident period end date for the disaster/event. The re-inspection may be performed by the original appraiser, another licensed appraiser, or licensed property inspection company; all inspections require photos.

Appraisals performed on or before the disaster incident period end date require a re-inspection to ensure the property was not affected by the disaster. The property inspection must identify the following:

- The property is free from damage and the disaster had no effect on value or marketability.
- If the re-inspection indicates damage, the extent of the damage must be addressed. Completion of repairs is required as evidenced by Form 1004D/442, Appraisal Update and/or Completion Report, or other post-disaster inspection report, with photos of interior, exterior, and neighborhood.

Appraisals performed after the incident period end date for disaster continue to require written certification by the appraiser indicating:

- Property is free from damage and the disaster had no effect on value or marketability.
- If the appraisal indicates damage, the extent of the damage must be addressed. Completion of repairs is required as evidenced by Form 1004D/442, Appraisal Update and/or Completion Report, with photos of interior and exterior.

The disaster policy will be in effect for transactions during an ongoing disaster and transactions with a Note date that is within ninety (90) days of the end date of the disaster incident period. The disaster policy is also in effect for loans with a post-closing disaster and prior to date FLCB funds the loan.

**Escrow Requirements**Escrow for Taxes and Insurance

Monthly deposits of escrow are generally required for taxes, hazard insurance, etc. Upon request, the escrow waiver option is available under the following conditions:

- Max LTV/CLTV 80%, and
- Min FICO 720 and
- A 0.125% price adjustment will apply

If a property is determined to be in a flood zone, it is required for escrows to be established at closing. **Important:** For acceptable hazard insurance for properties located in Hawaii, refer to FLCB's resource center and click the "Hazard Guideline" tab.

Escrow Repair Holdback

Not Allowed

**Other Information**Power of Attorney (POA)

Power of Attorney may acceptable subject to approval from the underwriter and closing management with advance review when a borrower is unavailable to execute loan documents. The POA must adhere to FLCB POA guides posted in our Fannie Mae Conventional Guidelines.

Assumability

Assumptions are not permitted.

Private Mortgage Insurance

N/A

Monthly MI

N / A

Cancellation of MI

N / A

Temporary Buydowns

Not Allowed

**Important Restrictions/Information:**

There are no exceptions to the guidelines for this product.

- FLCB must handle all closing document preparation functions. As a result, customers approved for FLCB's Delegated Document Program (DDP) cannot prepare their own closing documents on this product at this time.
- **This product requires second signature underwriting to be performed; therefore, it does not adhere to FLCB standard turn times which can be up to 5 business days.**