

SELF EMPLOYED FINANCIAL STATEMENT (5/1 ARM)
PURCHASE | RATE & TERM

OCCUPANCY/FICO	MAX DEBT RATIO	MAX LTV/CLTV	MAX LOAN AMOUNT
Primary Residence, Second Home & Investment 1 Unit SFR/PUD 620+ FICO	43%	55%/55% 50%/50%	50,000 – 1,000,000 1,000,001 - 2,500,000
Primary Residence, Second Home & Investment Condo 620+ FICO		50%/50%	50,000 – 1,500,000
Primary Residence & Investment 2-4 Unit 620+ FICO		50%/50%	50,000 - 2,500,000

CASH OUT (NO LIMIT)

OCCUPANCY/FICO	MAX DEBT RATIO	MAX LTV/CLTV	MAX LOAN AMOUNT
Primary Residence, Second Home Investment 1 Unit SFR/PUD 620+ FICO	43%	55%/55% 50%/50% 50%/50%	50,000 – 1,000,000 1,000,001 – 2,500,000
Primary Residence, Second Home & Investment Condo 620+ FICO		50%/50%	50,000 – 1,500,000
Primary Residence & Investment 2-4 Unit 620+ FICO		50%/50%	50,000 – 2,500,000

***** NO 4506T**

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BORROWER ELIGIBILITY

- U.S. Citizens
- Lawful Permanent Residents
- Non-Permanent Residents and Foreign National are not eligible
- Non-Occupant Co-Borrowers (may be considered on a case-by-case basis only)
- "For Sale By Owner" transactions must be closed through Escrow with an executed Real Estate sales contract in evidence
- Realtors are considered Self-Employed

NON ARMS LENGTH TRANSACTION

- Non-arm's length transactions are not eligible for financing under this product. Non-arm's length transactions also include, but are not limited to:
 - Applicants related by blood or marriage to the seller
 - Owners, employees or family members of originating entity
 - Renters buying from landlord

CREDIT SCORE

- Minimum credit score of 620 (middle score of 3)

CREDIT HISTORY

- Credit scores must be based on a minimum of 3 tradelines Open & Active for at least 24 months
- Non-traditional credit - Not permitted
- Mortgage Payments History: 0 x 30 in past twelve (12) months
- Housing Payment History: 0 x 30 in past twelve (12) months (No exceptions)
- Installment Debt: At least one installment trade line is required within the past thirty six (36) months
- Bankruptcy: Per current Fannie Mae guidelines
- Foreclosure/Short Sale: Must be seasoned for more than twelve (12) months
- Consumer Credit Counseling - Treated same as bankruptcy
- Judgments, Charge-offs - Must be released and over 24 months old
- Liens, Collections - Must be paid thru escrow with borrower's own funds: Exception Of Cash Out Transaction

MONTHLY DEBT OBLIGATIONS

- HELOC Payment:
 - Current monthly payment reflected on the credit report may be used for qualifying ratios.
 - If the amount is not shown on the credit report, use the payment reflected on the billing statement
- Installment Debts:
 - Payments on installment debts with more than 10 months of remaining payment must be included in the DTI.
 - Installment debts may be paid off or paid down to 10 or fewer monthly payments for qualifying, unless monthly debt obligation significantly affects the borrower's ability to meet their credit obligations.
 - *Limited to One installment debt being paid "down" per borrower/loan application-Unlimited if paying "off" *
- 30 Day Accounts
 - Document that the borrower has sufficient funds to cover the unpaid balance of all 30-day charge accounts. DU will include the balance of all 30-day charge accounts in the Total Funds to be verified.
- Deferred Installment Debts:
 - If a monthly payment cannot be determined, 2% of the outstanding balance will be used as the monthly payment.
- Lease Payments:
 - The lease payment must be included in the DTI regardless of the remaining number of payments.
- Co-signed Debts:
 - Evidence the primary obligor has made payments as agreed for the last 12 months (Provide copies of 12 month canceled checks)
 - No history of delinquencies in the last 12 months
- Debts paid by Business for Self-employed borrowers:
 - Debts paid by business for self-employed borrowers may be excluded from the monthly obligation when all of the following requirements are met.
 - ✓ No late payments in the last 12 months and no more than 1x30 in the last 24 month period.
 - ✓ Evidence, such as 12 months canceled checks, that the debt has been paid out of company funds
 - ✓ The underwriter may condition for CPA or borrower to prepare P&L (Cash Flow Analysis) that the business took the payment of the debt into consideration.
- Revolving Accounts:

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- Use the monthly payment shown on the credit report. If not available, use the greater of \$10 or 5% of the outstanding balance.
- Payoff of Revolving Accounts
- In order to qualify without the monthly payment on the current balance, a revolving account must be paid off and closed.
- ✓ Revolving account paid thru escrow is acceptable, however must provide a credit supplement or letter from creditor to evidence the account is closed prior to funding.
- ✓ If the revolving account is paid off, but not closed, the monthly payment shown on credit report (or the greater of \$10 or 5% of the outstanding balance, if there is not payment) must be included in the DTI.

EMPLOYMENT

- Self-employed only
- **Self-employed is defined as borrower owns 25% or greater of ownership interest in a business.**
- The business may be a sole proprietorship, a partnership (general or limited), an S corporation or a corporation.
- **Realtors are considered Self-Employed**
- Borrower must be self-employed for at least 2 years in same line of work
- Business phone number must be verifiable via 411 or internet
- Self-employed business license or CPA letter verifying borrower's ownership of business for last two years

INCOME

- FULL DOCUMENTATION
- Two (2) years of most recent tax returns required, except if DU/LP requires less than two years.
- FINANCIAL STATEMENT DOCUMENTATION

Option 1:

- CPA or Accounting firm Compiled YTD Profit & Loss Statement **AND** Borrower prepared Last two (2) full tax years Financial Statements (Profit & Loss Statement and Balance Sheet)
- Most recent three (3) months banks statements - (Underwriter may require additional months)
- **Tax returns and IRS form 4506T will not be required**
- **12 consecutive month's personal bank statements AND Borrower prepared Profit & Loss Statement covering the same time period to further validate the income shown in the bank statements**
- ✓ Deposits must be consistent and typical
- ✓ Large Deposits higher than 25% of the total monthly qualified income and/or typical deposits must be sourced to determine if funds came from a business source
- ✓ If another person other than the borrower's spouse is on the bank statements (and not on the loan), only 50% of the total deposits can be used for calculating income
- ✓ Non borrowing spouse on the bank statements you must determine which portion of the income is the borrower
- ✓ Determined total monthly average deposited and divided by 12 to determine the qualifying income
- **Tax returns and IRS form 4506T will not be required**

Option 3: (If borrower owns 100% of shares and LLCs where borrower is sole member/manager)

- Borrower prepared YTD Profit & Loss Statement **AND** CPA or Accounting firm Compiled one (1) full year Profit & Loss Statement
- Most recent three (3) months banks statements - (Underwriter may require additional months)
- **Tax returns and IRS form 4506T will not be required**
- RENTAL INCOME
- 24 months of landlord history is not required.
- Subject Property:
 - ✓ Provide appraisal form 1025 (2-4 units) OR 1007 (1 unit)
 - ✓ Fully executed lease agreement must be provided
- N/O/O property owned that is not the subject property:
 - ✓ Fully executed lease agreement must be provided
- Primary Residence converting to Investment Property:
 - ✓ 2055 Exterior Appraisal to document at least 30% equity
 - ✓ Fully executed lease agreement must be provided

ASSET

- FULL DOCUMENTATION
- Minimum of two (2) most recent Bank Statements –Underwriter may request/require additional months of bank statements
- FINANCIAL STATEMENT DOCUMENTATION
- Most recent three (3) most recent Bank Statements - Underwriter may require additional months of bank statements

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- Mutual Funds, Bond and Stocks: When used for reserves, 70% of the value of stock and mutual funds may be used
- Retirement Funds
 - Vested funds from individual retirement accounts and tax-favored retirement savings accounts may be used as a source of funds for the down payment, closing costs or reserves.
 - When funds from these sources are used for the down payment or closing costs, any applicable withdrawal penalties or income tax must be subtracted so that only the net withdrawal is counted.
 - To account for withdrawal penalties and estimated taxes, include only 60%, less any new or outstanding loan(s), of the vested amount in its determination of the borrower's available reserves.
 - When a retirement account only allows withdrawals in connection with the borrower's employment termination, retirement or death, do not consider the vested funds as reserves.
- Business Assets:
 - The borrower must have 100% ownership of the business. The Company CPA to verify that withdrawal of funds has no adverse effect to business.
 - Sole owner; Business accounts will be considered for the down payment, closing costs or reserves; not for determining Ability to Repay
- Gift Funds:
 - Acceptable after a minimum 30% down payment has been made by the borrower from their own resources
- Gift of Equity
 - Not Allowed
- Large Deposits
 - Any large deposit not consistent with the borrower's employment and/or over 25% of borrower's earnings must be fully explained and sourced with acceptable documentation in order to be eligible for down payment, closing costs, earnest money deposit and reserves.
 - All funds used for down payment, closing costs, earnest money deposit and reserves must be from an acceptable source and clearly not be a result of undisclosed borrowed funds or incentive from an interested party such as a seller, real estate agent or developer.
 - A large deposit could be a single deposit or multiple deposits over a period of time that in aggregate, result in a large deposit.
 - A review of the borrower's financial profile must be conducted in order to draw a conclusion that a deposit must be sourced.

RESERVES

- In addition to the minimum PITI reserve requirements, borrowers must also disclose and verify all other liquid assets

Property Type Loan Amount Required Reserves

All Property Type

Up to \$1,000,000 9 months, verified PITI

\$1,000,001 – \$1,500,000 12 months, verified PITI

\$1,500,001 – \$2,500,000 18 months, verified PITI

- Additional 6 months PITI reserves are required for each financed property in addition to the subject property
- *Limit 10 financed properties.*

INTERESTED PARTY CONTRIBUTIONS

- 3% regardless of LTV/CLTV

DELAYED FINANCING REQUIREMENTS (if applicable)

- Initial/Original purchase transaction must be 'Arm Length Transaction'
- Source of all funds went into Initial/Original purchase transaction must be from borrower's own funds and must provide Final HUD 1

LISTED PROPERTIES

- Properties must be withdrawn from MLS prior to initial loan application date

MULTIPLE PROPERTY OWNERSHIP

- Borrowers with up to 10 financed properties - must qualify with 6 months PITI for each property

REAL ESTATE OBLIGATION

- The current primary residence is being converted to an Investment Property
 - At least 30% equity in the existing property derived from an AVM, must be supported by Drive by Appraisal Report (Form 2055), then 75% of the rental income can be used to offset the PITI to qualify
 - Rental income must be documented with a copy of fully executed lease agreement

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CONTINUITY OF OBLIGATION

- The borrower must be the existing lien holder for refinance transaction

APPRAISALS

- All appraisals must be completed by a state-certified appraisal

Loan Amount Appraisal Required

Up to \$1,000,000 One Full Appraisal Must have 3 sold comps in past 6 months

\$1,000,001 to \$2,500,000 Two Full Appraisals Must have 5 sold comps in past 12 months

- If property has been "flipped" in the last 180 days, a second appraisal is required.
- If property valuation has increased by 10% in the last 180 days, a second appraisal is required.

SUBORDINATE FINANCING

- Subordination agreement is mandatory, if applicable

PREPAYMENT PENALTY

- None

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