

CAPELLA MORTGAGE CORP.

ALTQM – NONQM – FOREIGN NATIONAL & ITIN MORTGAGE UNDERWRITING GUIDELINES

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SELF EMPLOYED BANK STATEMENT PROGRAM - ALTQM

Designed for credit worthy self-employed borrowers (one borrower must be self-employed; may have W2 co-borrower)

- Self-employed borrowers are qualified using bank statements for the most recent 12-month or 24-month period
- No tax returns or 4506 required
- Assets must be traditionally documented
- Up to 55% debt to income ratio – depending on disposable income
- Loan amounts up to \$4 million
- Credit scores as low as 580 – even lower depending on down payment
- Purchase, refinance, or cash-out
- Cash-out up to \$250,000 – depends on situation
- Maximum 80% LTV
- Primary, 2nd home, investment property 1-4 unit

W2 WAGE EARNER ALTQM

Wage Earner:

- 1-2 years W-2s,
- 30 days paystubs,
- VVOE and Written VOE or Work Number
- processed 4506T.
- The borrower must acknowledge their ability to repay the loan by signing a Borrower Affirmation document at closing.
- Payment Shock Payment shock should not exceed 50% if the borrowers currently rent, or 100% if the borrowers have prior mortgage history.

ITIN NONQM LOAN PROGRAM

- U.S. Government ID Card, Matricula Consular ID, or Passport
- 2 Years employment in the same or similar line of work (can be salaried or self-employed)
- 2 Years Tax Returns using their I-TIN number
- Owner Occupant – or Investment – Land – or Commercial Properties OK
- Minimum 20% down payment

FOREIGN NATIONALS

ELIGIBILITY CHECKLIST

Foreign Nationals are a non-US Citizen with a valid passport AND valid visa

o Borrowers who are residents of countries which participate in the State Department's Visa Waiver Program (VWP) will not be required to provide a valid visa. See:

http://travel.state.gov/visa/temp/without/without_1990.html

o Evidence that the borrower is in the U.S. legally is required, however, no defined length of stay is required.

o Borrower's visa status must be documented to determine eligibility. Alien Status ID Certification must be used to ensure compliance with eligibility requirements.

o Legible copy of a valid passport, including photograph, signature page and evidence of duration of stay permitted for each borrower, and if applicable, a legible copy of a valid visa (including photograph) for each borrower.

o For Canadian and Mexican citizens Capella accepts the following:

o A laser visa card; it is both a border crossing card and a B1/B2 visa, or

o A NAFTA treaty visa (TN, TC, E1 & E2)

o An IRS form W-8BEN, Certificate of Foreign Status must be filed with the IRS (all borrowers). A copy of the Certificate must be retained in the file. **

GUIDELINES FOR ALL PROGRAM TYPES

VALUATIONS

APPRAISALS

Appraisal transfers are allowed.

Loan Amount Appraisal Requirement

≤ \$1,000,000 One Full Appraisal – depending on situation and location

> \$1,000,000 Two Full Appraisals – depending on situation and location

All properties For Sale By Owner (FSBO) w/LTV > 75% Two Full Appraisals

Appraisals shall be ordered by Capella Mortgage

HIGHER PRICED MORTGAGE LOANS: Section 35 Higher Priced Mortgage Loans (HPMLs) will be allowed subject to mandatory impound account for 5 years.

RESERVE REQUIREMENTS

6 months minimum for W2 wage earners, Bank Statement program, Foreign Nationals and ITIN borrowers.

Investment properties must show a DSCR of at least 1.15. Less than 1.15 must show additional reserves of 6 months

Lease agreements must be provided for all investment properties

BUSINESS FUNDS

Funds in the borrower's business account(s) ≤ 50% of account balance may be counted toward reserves so long as borrower is 100% owner of business (e.g., Sole Proprietor, S Corp, Corporation, LLC) or has written permission in file from other business co-owner(s) regarding use of these business funds (up to 50% of account balance) for reserves.

- PITIA for reserves is the monthly housing expense for a property and includes the following:
- Principal and interest (P&I);
- Hazard, flood, and mortgage insurance premiums (as applicable);
- Real estate taxes;
- Ground rent;
- Special assessments;

- Any owners' association dues (including utility charges that are attributable to the common areas, but excluding any utility charges that apply to the individual unit);
- Any monthly co-op corporation fee (less the pro rate share of the master utility charges for servicing individual units that is attributable to the borrower's unit);
- Any subordinate financing payments on mortgages secured by the subject property

GIFT FUNDS

Gift funds and gifts of equity are allowed for all borrowers up to 15% of the 25% down payment requirement or to cover closing costs, whichever is less, but is dependent on the credit score and loan to value and loan amount.

GUARANTORS

Non-occupying co-borrowers are not allowed BUT guarantors are allowed and income from guarantors may be used to supplement income to reduce the debt-to-income ratios to below 43% in situations where the income verification is not fully documented. Approved by senior management on a case by case basis.

ESCROW WAIVERS

None allowed for any borrowers. Servicing shall collect monthly taxes and insurance.

GEOGRAPHICAL LOCATIONS

Nevada, Arizona, California, Texas, New Mexico, Colorado.

Additional restrictions as follows: State specific regulatory requirements supersede all underwriting guidelines

INCOME/ASSET VERIFICATION

Employed Borrowers:

Most recent paystub including year-to-date earnings (covering minimum of 30 days) and two years W-2s; or Traditional Written Verification of Employment with 30 days of paystubs and 2 years W-2s.

Must have 2 years continuous employment in the same line of work. Gaps of 60 days or less may be accommodated with adequate explanation. W-2 only and/or 1099 transcripts from the IRS are required for the wage earning or retirement income co-borrower. All borrowers must be qualified using current verifiable income, not projected income.

Self-Employed borrowers:

A borrower with a 25% or greater ownership interest in a business is considered self-employed and must be evaluated as a self-employed borrower. Borrower must document two years current continuous self-employment with business license. Acceptable business license must be verified by third party such as Secretary of State records or County Records.

Alternative Documentation Program – Underwriting Guidelines

Borrowers whose self-employment cannot be independently verified are not eligible.

Retirement and Other Income:

Retirement income and other fixed documentable income is allowed for qualifying income for both a self-employed borrower and for any non-self-employed or retired co-borrower. Non-taxable income may be “grossed up” by 25%.

Rental Income:

Rental income used for qualification must be documented with lease(s). Use 75% of lease rent amount minus PITIA for net rental income.

Borrower Affirmation for Accurate Income and Debts

A Borrower Affirmation document must be signed at closing confirming the income and loan terms on the final 1003.

Self Employed Income Calculation

Bank statements are used to calculate and show consistency of income for the self-employed borrower. If personal and business bank activity are combined in one bank account: Borrower is to provide the most recent twelve (12) months consecutive bank statements from the same account, however, multiple accounts are allowed in certain situations. Request waiver from Capella Mortgage underwriter.

A Profit and Loss (P&L) that is prepared by a CPA or Licensed Tax Preparer must be provided.

Expenses must be reasonable for the type of self-employment. The P&L will be used for qualifying; revenue must be supported by the bank statements provided. Total deposits per bank statements must be no more than 5% below revenue reflected on the P&L.

Example: Revenue per P&L is \$100,000 and total business deposits into the bank account are \$95,000, the loan would meet the requirement. If the deposits were less than \$95,000 the loan would not meet guidelines.

Up to 24 months bank statements may be required at the underwriter’s discretion. Income situations that may require additional bank statements for review include but are not limited to: inconsistencies in cash flows consistent with occupation type or seasonal types of self-employment. Examples include seasonal income such as that received by a tax accountant whose primary income occurs in the first half of a year, or large isolated payments such as those received by political consultants or promoters who are paid for a specific events or contracts and have a history of similar types of payments.

If the borrower maintains separate bank accounts for personal and business, then the personal bank statements will be used for qualifying. The borrower is to provide the most recent twelve (12) months consecutive personal bank statements and three (3) months business bank statements (to support the borrower does maintain separate accounts). The deposits will be analyzed and averaged to determine monthly income. If the analysis is inconclusive (e.g. large fluctuations in deposits) a CPA or Licensed Tax Preparer is to provide a P&L covering the twelve (12) month period. When a P&L is provided, monthly income will be determined from the P&L. Up to 24 months bank statements may be required at the underwriter’s discretion. For both the combined bank statements and the separate bank statement scenarios, beginning and ending balances will be evaluated and must support the overall transaction

requested. Low beginning and/or ending balances may require additional documentation up to and including 1040s, 1065s, 1120s, etc. Option to only use business bank statements If the borrower has separate business and personal accounts and the personal account does not show sufficient deposits to qualify, underwriter may use a third party prepared Profit and Loss (P&L) statement and use the business bank statements (similar to the combined accounts above) and use the bottom line income on the P&L for qualifying. Deposits on the business bank statements must be within 5% of the gross receipts on the third party prepared P&L.

Non-sufficient funds Non-sufficient funds (NSF) is a term used to indicate that a demand for payment (a check) cannot be honored because insufficient funds are available in the account on which the instrument was drawn. In simplified terms, a check has been presented for clearance, but the amount written on the check exceeds the available balance in the account. An NSF will be counted against the borrower when the borrower's account is overdrawn. This is the same for "non-sufficient funds" as "over-drafting," whether or not such "overdraft protection" is enabled. Borrower generally may have no more than 3 instances of non-sufficient funds (NSFs) in a 12 month period. Instances can be within a single month or spread out over the 12 month period. Borrower explanation letter is required. Exception: Underwriter may approve > 3 NSFs in certain instances on a case by case basis so long as it is an isolated situation. Exception must be reviewed and signed off by an underwriting manager. Returned check situations (e.g., from borrower's accounts receivable) that cause NSFs will be considered separately from above NSF limits. Returned checks that do not result in a negative balance are not considered NSFs. The bank statements should show a trend of ending balances that are stable or increasing over the 12 month (or other examination) period.

CREDIT REQUIREMENTS: US CITIZENS AND LEGAL RESIDENT ALIENS

Each of the following credit components impacts the borrower's ability to repay the loan, therefore NO EXCEPTIONS will be allowed on the following items:

- Borrowers must have a minimum of 2 trade lines on the credit report, but 4 is preferred, unless borrower is an ITIN borrower. Trade lines may be open or closed, with two seasoned trade lines having a minimum 24-month rating and two trade lines with at least a \$5,000 high credit limit. The seasoning and high credit limit requirements may be met with the same trade line. Authorized user trade lines are not eligible for any portion of the credit requirement.
- Bankruptcy, Short Sale, Deed-in-Lieu – Allowed, depending on the situation and explanation.
 - o Short Sale or Deed in Lieu ≥ 1 years and < 2 years is acceptable with the following compensating factors:
 - ♣ Maximum 70% LTV or existing guidelines, whichever is lower; and
 - ♣ Additional 6 months reserves required for subject property (this amount is in addition to all other reserves required on the loan)
- Foreclosure – None in the last year, except that:

o Foreclosure \leq 1 year is acceptable with the following compensating factors:

- ♣ Maximum 50% LTV or existing guidelines, whichever is lower; and
 - ♣ Additional 6 months reserves required for subject property (this amount is in addition to all other reserves required on the loan)
- Mortgage Lates – 0x30 during the past 12 months
 - Judgment/Tax Lien/Collections/Charge-Offs – Must be paid. New items with a cumulative total $>$ \$5,000 in the last 24 months will exclude the borrower from this program.

Underwriters will evaluate the borrower's liabilities to help assess Ability to Repay. These will include:

- The monthly payment on any simultaneous loan
- The consumer's monthly payment for mortgage-related obligations
- The consumer's current debt obligations, alimony, and child support Underwriters should consider the following:
- Credit limits, usage and overall credit profile – Is this consistent with the income established for qualifying purposes?

CREDIT REQUIREMENTS FOR NON-PERMANENT RESIDENT ALIENS – ITIN PROGRAM

Each of the following credit components impacts the borrower's ability to repay the loan, therefore NO EXCEPTIONS will be allowed on the following items:

- Borrowers must have a minimum of 2 trade lines on the credit report under their ITIN number. Trade lines may be open or closed, with one seasoned trade line having a minimum 24-month rating and one trade line with at least a \$2,000 high credit limit. The seasoning and high credit limit requirements may be met with the same trade line. Authorized user trade lines are not eligible for any portion of the credit requirement.
- Bankruptcy, Short Sale, Deed-in-Lieu –with letter of explanation approved by Senior Management and must meet these additional requirements:
 - ♣ Maximum 60% LTV or existing guidelines, whichever is lower; and
 - ♣ Additional 6 months reserves required for subject property (this amount is in addition to all other reserves required on the loan)
- Foreclosure \geq 0 years and $<$ 4 years is acceptable with the following compensating factors:
 - ♣ Maximum 65% LTV or existing guidelines, whichever is lower; and
 - ♣ Additional 6 months reserves required for subject property (this amount is in addition to all other reserves required on the loan)
- Mortgage Lates – 0x30 during the past 12 months
- Judgment/Tax Lien/Collections/Charge-Offs – Must be paid except for medical collections $>$ \$2500 as ITIN borrower do not have access to health insurance. New items – even if they are paid off - with a cumulative total $>$ \$2,000 in the last 24 months (except for medical collections) will exclude the borrower from this program.

Underwriters will evaluate the borrower's liabilities to help assess Ability to Repay. These will include:

- The monthly payment on any simultaneous loan

- The consumer's monthly payment for mortgage-related obligations
- The consumer's current debt obligations, alimony, and child support

Underwriters should consider the following:

- Credit limits, usage and overall credit profile – Is this consistent with the income established for qualifying purposes?
- Amount of down payment, LTV, refinance vs purchase, length of ownership, previous hard money loan with no mortgage lates.
- If the borrower has a mortgage loan on the subject property with an interest rate > 10% and the borrower is current now on their mortgage but has had lates in the past 24 months due to a documented reason, and that reason is no longer in effect, then the loan can be submitted to Senior Management for an exception. However, consistent lates on utility bills, phone bills, or small balance credit cards will most likely result in a denial by Senior Management. Review your client's credit history carefully before asking for an exception from Senior Management.
- Many ITIN borrower's banking history reflect a cultural mistrust of any banking system, therefore down payment funds and reserves may not be in the bank. To prove that the borrower does have the cash saved up, the borrower will have to prove the existence of those funds. There are many ways to do this: borrower can bring funds to the mortgage office to be counted, borrower can take a picture of the funds spread out, borrower can take the funds to the bank and deposit them and bring a receipt to the mortgage office, or the MLO can go to the borrower's home to count the funds. However, it is important that the borrower be able to prove the existence of these funds at the initial application, as sourcing them later cannot prove that the funds were not borrowed. If the funds cannot be sourced at the initial application, then the borrower will have the down payment or equity requirements increased by 5 or 10%, in Senior Management's discretion, based on the loan amount.

CREDIT REQUIREMENTS FOR FOREIGN NATIONALS

A foreign national is defined as someone who lives in another country and visits the United States for brief periods for business or vacation. To be eligible, the borrower must be a legal resident of another country and live and work there. Eligibility:

- Foreign Nationals are a non-US Citizen with a valid passport AND valid visa
 - o Borrowers who are residents of countries which participate in the State Department's Visa Waiver Program (VWP) will not be required to provide a valid visa. See: http://travel.state.gov/visa/temp/without/without_1990.html
 - o Evidence that the borrower is in the U.S. legally is required, however, no defined length of stay is required.
- Borrower's visa status must be documented to determine eligibility. Alien Status ID Certification (attached to these guidelines) must be used to ensure compliance with eligibility requirements.

- Legible copy of a valid passport, including photograph, signature page and evidence of duration of stay permitted for each borrower, and if applicable, a legible copy of a valid visa (including photograph) for each borrower.
- For Canadian and Mexican citizens, we accept the following:
 - o A laser visa card; it is both a border crossing card and a B1/B2 visa, or
 - o A NAFTA treaty visa (TN, TC, E1 & E2)
- An IRS form W-8BEN, Certificate of Foreign Status must be filed with the IRS (all borrowers). A copy of the Certificate must be retained in the file. Property Eligibility:
- Second Homes and Investment Property only

Foreign nationals' financial strength and ability to repay may be documented using their income from their home country and their assets from any country. For example, a German citizen who owns properties in 3 other countries, all paid off with no mortgages, can use those assets to meet reserve requirements or as asset depletion reserves (subject to asset depletion requirements below) as long as there is sufficient documentation proving those assets and their mortgage balances.

Sufficient documentation may include:

- property ownership tax records in the name of the borrower,
- tax returns from their home country or other country showing the existence of the assets and the amount of mortgage interest paid
- mortgage statements showing the address of the property and the mortgage balance and interest rate

Credit Requirements:

- Borrowers do not need any trade lines in the US
- Bankruptcy, Short Sale, Deed-in-Lieu, Foreclosure – None in the US
- Maximum 70% LTV or existing guidelines, whichever is lower; and
- Additional 12 months reserves required for subject property (this amount is in addition to all other reserves required on the loan)
- Mortgage Lates – 0x30 during the past 12 months on US owned properties
- Judgment/Tax Lien/Collections/Charge-Offs – None outstanding, all must be paid. New items with a cumulative total > \$2,000 in the last 24 months will exclude the borrower from this program. Underwriters will evaluate the borrower's liabilities to help assess Ability to Repay.
- Borrower MUST prove sufficient assets in his home country or other countries to qualify for this program. Assets consist of available liquid funds held in a bank, stock market, money market, mutual funds, gold or silver held by an institution, real estate, commercial real estate, employment income, etc. Any borrower having a difficult time proving his net worth may request a review of his situation by Senior Management.

Escrow Accounts:

- Taxes and insurance must be impounded, unless prohibited by law.

Mortgage Payment - ACH

- Due to frequent travel outside the U.S., it is required that all Foreign National borrowers establish an ACH debit for mortgage payment from a U.S. bank.

Credit Score:

- A credit score is not required, unless a U.S. credit report is available; see below.

Credit Criteria:

- If the borrower has a valid SSN or Tax ID, a traditional U.S. credit report is required
- Borrowers that have established credit in the U.S. must comply with the profile listed in this section.

NOTE: If a credit report is not available, a minimum of one original credit letter must be obtained from a financial institution located in the country of origin or 3 credit references.

- o The credit reference letter, on the financial institution's letterhead must include contact information, borrower's name and account number, detailing the types and lengths of the institution's relationship. The account with financial institution must have been opened at least two (2) years.

- o Credit reference letter must be an original on institution letterhead and reflect telephone number, address, and website. It should be written in borrower's native language and any money amounts should be reflected in national currency. The letter must be translated into English.

Documentation

- Documents signed by borrowers outside of the United States must be notarized by a U.S. embassy or consular official. The certificate of acknowledgment must meet the standard notarial requirements and must include the embassy or consular seal.
- Power of Attorney (POA) is not allowed. Translations:
- All documents must be translated into English by an independent third-party translator. Copies of the original document and the translation will be required.

Verification of Assets and Seasoning Requirements

Required assets for loan qualification include down payment, closing costs, and reserves. All assets used for qualifying must be seasoned for 12 months (see Assets). To the extent that required assets are verified as seasoned within a bank on the "Acceptable Bank List" there is no further seasoning requirement within a U.S. bank or financial institution. (See Acceptable Bank List at the end of these guidelines)

Down payment, closing costs and reserves (per reserve table in Assets) must be verified with a VOD or computer bank statement as deposited in a U.S. bank prior to closing. If asset documentation (12-month

seasoning) is provided from a bank that is not on the “Acceptable Bank List” then the following verification and additional seasoning requirements apply:

- At least 75% of the required assets must be verified with computer bank/asset statement(s) as deposited in a U.S. bank or other regulated U.S. financial institution and seasoned for a period of 6 months prior to closing.
 - o If transfer to U.S. account occurs within 12 months prior to closing, then supporting documentation concerning source and transfer is required.
 - o Transfers occurring greater than 12 months prior to closing do not require supporting documentation.
- Up to 25% of the required assets may be paper-trailed from a financial institution in the borrower’s home country:
 - o The borrower must provide the last 3 bank statements or most current quarterly statement, together with a copy of the Wall Street Journal’s conversion table as of the same date as the bank statements, for the purpose of converting the borrower’s foreign currency to U.S. dollars.
 - o The underwriter must provide a statement outlining the beginning and ending balances of all foreign bank accounts converted to U.S. dollars. Large deposits are handled per FNMA guidelines.
 - o Borrower must provide proof of transfer of the remaining funds (up to 25% of required assets) from the home country to a U.S. bank prior to closing.

Income Verification: N/A Additional Restrictions – the following are not allowed on the Foreign National program:

- Borrowers with diplomatic immunity
- Non-occupant co-borrowers
- Gift funds
- Gift of equity, non-arms-length transactions, FSBO (for sale by owner) transactions

Underwriting Guidelines

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