

Contents

<i>Sequoia DSCR Eligibility Grid.....</i>	<i>4</i>
<i>Sequoia DSCR Foreign National Eligibility Grid</i>	<i>4</i>
<i>Debt Service Coverage Ratio (DSCR).....</i>	<i>5</i>
<i>Loan Terms and Qualifying Payments</i>	<i>5</i>
<i>Transaction Types.....</i>	<i>5</i>
<i>Purchase</i>	<i>5</i>
<i>Rate & Term</i>	<i>5</i>
<i>Cash Out</i>	<i>6</i>
Cash Out Seasoning and Value Determination _____	6
Requirements for Delayed Financing _____	6
<i>Recently Listed Properties.....</i>	<i>6</i>
<i>Prepayment Penalty.....</i>	<i>7</i>
<i>Eligible Borrowers</i>	<i>7</i>
US Citizen _____	7
Permanent Resident Alien _____	7
Non-Permanent Resident Alien: Standard _____	8
Non-Permanent Resident Alien: Non-standard _____	8
Foreign National _____	8
<i>Multiple Properties Owned.....</i>	<i>8</i>
<i>Ineligible Borrower.....</i>	<i>8</i>
<i>Ineligible Tenant(s).....</i>	<i>9</i>
<i>Entity Vesting.....</i>	<i>9</i>
<i>Automatic Payment Authorization (ACH)</i>	<i>10</i>
<i>Non-Arm's Length (NAL) and Interested Party Transaction (IPT).....</i>	<i>10</i>
NAL and IPT Restrictions _____	10
Eligible NAL and IPT Transaction (Not Subject to Restrictions) _____	10
<i>Credit</i>	<i>11</i>
Age of Credit Docs _____	11
Fraud Check _____	11
Mortgage/Rental Verification _____	11

Consumer Credit Charge-Offs and Collections	11
Judgments or Liens	11
Income Tax Liens	11
Forbearance	12
Credit Score	12
Tradelines / Credit Review	12
Credit Review	13
Housing History	13
Significant Credit Event Waiting Periods	13
Assets.....	14
Requirements	14
Business Funds	14
Crypto Currency	14
Gift Funds	14
Reserves	14
Acceptable Sources of Reserves	15
Unacceptable Sources for Reserves	15
Transcripts	15
Appraisal Requirements	15
Second Appraisal	15
Transferred Appraisal	16
Appraisal Review Product	16
Minimum Square Footage Requirements	16
Declining Markets	16
Property Flipping	16
Property	17
Eligible Properties	17
Rural Properties	17
Acreage Limitations	17
Ineligible Properties	17
Condos	18
Project Requirements	18
Non-Warrantable Projects	18

<i>DSCR Calculation</i>	19
Documentation Requirements	19
<i>Rental Income Calculation: Purchase</i>	19
Long Term Rents (LTR)	19
Short Term Rents (STR)	19
<i>Rental Income Calculation: Refinance</i>	20
Long Term Rents (LTR)	20
Short Term Rents (STR)	20
<i>Accessory Dwelling Unit (ADU) Rents</i>	21
<i>Investor Types</i>	21
Experienced Investor	21
Novice Investor	22
First Time Property Owner	22
<i>DSCR: Foreign National Option</i>	22
Eligible Borrowers	22
Ineligible	23
Credit	23
Significant Credit Event Waiting Periods	23
Letter of Credit (LOR) Requirements	24
Cash Out	24
Reserves	24
Foreign Assets	24

Correspondent Sequoia DSCR Guidelines

Sequoia DSCR Eligibility Grid

Sequoia DSCR ≥ 1.00				
LTV/CLTV MATRIX – Investment Property				
Loan Amount	Credit Score	≥ 1.00 DSCR		
		Purchase	Rate & Term	Cash-Out
$\leq \$500,000$	700	80%	80%	75%
	640	75%	75%	70%
$\leq \$1,000,000$	700	80%	80%	75%
	660	75%	75%	70%
$\leq \$1,500,000$	700	75%	75%	70%
	660	70%	70%	70%
$\leq \$2,000,000$	700	70%	70%	65%
	660	70%	70%	65%
$\leq \$2,500,000$	700	70%	70%	N/A
Sequoia DSCR $\geq 0.80 < 1.00$				
LTV/CLTV MATRIX – Investment Property				
Loan Amount	Credit Score	$\geq 0.80 < 1.00$ DSCR		
		Purchase	Rate & Term	Cash-Out
$\leq \$2,000,000$	700	70%	70%	65%

Sequoia DSCR Foreign National Eligibility Grid

Sequoia Foreign National - DSCR				
LTV/CLTV MATRIX – Investment Property				
Loan Amount	Credit Score	≥ 1.00 DSCR		
		Purchase	Rate & Term	Cash-Out
$\leq \$1,000,000$	680	75%	75%	65%
	Foreign Credit	75%	75%	60%
$\leq \$1,500,000$	680	70%	70%	60%
	Foreign Credit	70%	70%	60%

Debt Service Coverage Ratio (DSCR)

Allowed on investment properties only.

Borrower must review and sign:

- Borrower Certification of Business Purpose AND
- Occupancy Certification

Gross rents are used in the DSCR calculation. Gross rents are the lower of actual rents from lease agreements and market rents based on a 1007 or 1025 in the case of a multi-family

Loan Terms and Qualifying Payments

Available Loan Terms

15 Year Fixed

30 Year Fixed

40 Year Fixed

30 Year Fixed / 10 Year I/O (Minimum FICO 660 required)

40 Year Fixed / 10 Year I/O (Minimum FICO 660 required)

I/O loans qualify based on:

Interest Only Payment

Transaction Types

Purchase

Borrower contribution

- A minimum 10% borrower contribution is required
- Flips allowed – see guidance in appraisal section

Interested Party Contributions (IPC)

- 3% allowed for all LTV's

Rate & Term

- Pay off existing first mortgage and any subordinate loan used for the acquisition of the property
- Pay off any subordinate loan that was not used for the acquisition of the property when:
 - Closed end loan with at least 12 months seasoning
 - HELOC with at least 12 months seasoning and total draws over the past 12 months are less than \$5000
- Buy out of a co-owner pursuant to an agreement
- Pay off an installment land contract executed more than 12 months from the application date

Important Rate & Term Notes

- Cash back may not exceed the lesser of 2% or \$5000

- LTV/CLTV based on current appraised value
- Listed properties must document that the listing has been cancelled

Cash Out

Max Equity Withdrawal

- $\geq 65\%$ LTV up to \$300,000 allowed
- $< 65\%$ LTV up to \$500,000 allowed
- $\leq 50\%$ LTV up to \$1,000,000 allowed

Equity withdrawal limitations do not apply to delayed financing transactions

Purpose of cash out:

Cash out can only be used for the business purpose of owning rental property: acquire, manage, and improve

Cash Out Seasoning and Value Determination

Properties owned six (6) months or more are eligible for cash out. Six months ownership seasoning is determined by the acquisition date and our note date.

- Property is owned ≥ 6 months - use the current appraised value
- Cash-Out when property is owned < 6 months is only allowed under the following conditions
 - Borrower acquired the property through an inheritance or was legally awarded the property through divorce, separation, or dissolution of a domestic partnership
 - Delayed Financing

Requirements for Delayed Financing

1. Max LTV/CLTV is based on the lower of the current appraised value or purchase price plus documented improvements
2. Document property was purchased with cash by providing the final closing document for the transaction (ALTA) showing no lender OR provide a copy of the mortgage showing a term of 24 months or less
3. Document source of purchase funds

Recently Listed Properties

Properties listed for sale in the past six (6) months, measured from application date, are not eligible.

The following are not eligible for cash out:

- Land Contract/Contract for Deed

Prepayment Penalty

DSCR with Standard Prepayment Penalty:

- Prepayment penalty is equal to 6-months interest on 80% of unpaid principal balance

5% PPP Program:

- Prepayment penalty charge is 5.00% of the amount prepaid

Prepayment Penalties are not allowed in the following states:

- Alaska
- DC
- Illinois
- Louisiana
- Michigan
- Minnesota
- New Mexico
- Ohio
- Vermont

Prepayment Penalties are allowed in the following states with restrictions:

- North Carolina: Prepay terms > 3 years Not Allowed
- New Jersey: Allowed only if closing in LLC or Corp
- Iowa: Allowed on 3-4 units only
- Indiana: Allowed only if fixed rate

Eligible Borrowers

US Citizen

No restrictions

Permanent Resident Alien

No restrictions but must provide one of the following:

- Alien Registration Card I-151 (Green Card)
- Alien Registration Card I-551 (Resident Alien Card/Green Card) that does not have an expiration date
- Alien Registration Card I-551 (Conditional Resident Alien Card) that has an expiration date as well as a copy of the filed INS Form I-751 (petition to remove conditions)
- Non-expired foreign passport that has a non-expired stamp (valid for at least three (3) years) must contain the following language: *“Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until <<Date>>. Employment*

authorized”

Non-Permanent Resident Alien: Standard

- Visa types allowed E-1, E-2, E-3, EB-5, G-1 through G-5, H-1, L-1, L-2, NATO, O-1, R-1, TN NAFTA
- Visas must be current and have at least six (6) months remaining from the close date, if less than six (6) months provide evidence that extension has been requested
- If the visa will expire within six (6) months of the loan application a letter from the employer stating the borrower’s continued employment and continued visa renewal sponsorship. Employer on the loan application must be same on the unexpired visa

Non-Permanent Resident Alien: Non-standard

Any residency status that meets FNMA guidelines is allowed provided the requirements listed below are met

- Visas/EAD must be current and have at least six (6) months remaining from the close date, if less than six (6) months provide evidence that extension has been requested
- If the visa/EAD will expire within six (6) months of the loan application a letter from the employer stating the borrower’s continued employment and continued visa renewal sponsorship. Employer on the loan application must be same on the unexpired visa
- Must have a min of two (2) years residency history in the US
- Must have a two (2) year US credit history and must meet program credit profile, the two (2) year history is measured from note date

Foreign National

Foreign nationals are borrowers without permanent or non-permanent resident alien status. See section at the end of this guide for information on this borrower.

Multiple Properties Owned

- No Limit to Number of Properties Owned

Max exposure to Newfi Lending

- DSCR ≥ 1.0 : eight (8) loans or \$5,000,000 UPB
- DSCR $\geq 0.80 < 1.0$: two (2) loans or \$1,000,000 UPB

The max exposure rule is not automatic. The loans must not be secured to properties in the same micro-geographic area, for example, same block, subdivision, PUD project, or condo project. The files will also be screened for other risk attributes like cash out transaction, high LTV, STR income, negative credit profiles, and borrower liquidity.

Ineligible Borrower

- Irrevocable trust
- Land trust

Correspondent Sequoia DSCR Guidelines

- Blind trust
- Borrower with diplomatic immunity
- Not for profit entity
- Any material parties to the transaction on HUD's Limited Denial of Participation (LDP) or General Services Administration (GSA) or any other exclusionary list
- Borrower who is also the Developer/Builder of subject property development for projects of 5 or more units

Ineligible Tenant(s)

- Family member or other related individual to borrower

Entity Vesting

Entity vesting is allowed on non-owner occupied only, the following are required

- Entity type is LLC or Corporation
- Borrower(s) must represent a minimum of 50% of the entity ownership
- 4 borrower MAX
- U.S. domiciled entities only
- Purpose of entity must be for real estate acquisition

Documentation verifying the following must be provided.

For LLC:

- Verify entity membership with formation docs or other entity documentation
- Provide federal licensing entity ID number (EIN)
- Show the entity is in good standing

For Corporations:

- Filed Certificate/Articles of Incorporation and all amendments (or equivalent)
- By-Laws and all amendments
- Evidence of good standing
 - Good standing is always required for the state in which the entity was formed (e.g., Certificate, screen shot from state website)
- EIN/Tax Identification Number
- Borrowing Resolution/Corporate Resolution granting authority of signer to enter loan obligation
- Receipt of current year franchise tax payment, clear search, or evidence the state does not require a franchise tax payment

Automatic Payment Authorization (ACH)

Automatic Payment Authorization is an option borrowers may select. An executed Automatic Payment Authorization (ACH) Form is required and must be provided with signed closing docs. Funds must be from a U.S. Bank. The (ACH) enrollment form must include the bank routing number, account number, and account type.

Non-Arm's Length (NAL) and Interested Party Transaction (IPT)

Non-Arm's Length NAL

An NAL occurs when the borrower has a direct relationship or business affiliation with the builder, developer, or seller. Examples are, family sales, employer/employee, property in a trust. If the seller of a property is a business-entity, then it is necessary to confirm that the buyer is not an owner of the seller-entity.

An NAL is not intended to bail out a family member, a complete review of the prelim as well as the seller's mortgage payment history may be required.

Interested Party Transaction (IPT)

An IPT occurs when the borrower has an affiliation or relationship with the mortgage broker, loan officer, real estate agent or any other interested party to the transaction, extra due diligence is required when an IPT exists.

The seller's real estate agent may not act as the loan officer for the subject property.

NAL and IPT Restrictions

- Maximum LTV is 70%
- For-Sale-By-Owner (FSBO) must be arm's length, unless family transaction
- Employer to employee sales is not allowed
- Property trades between buyer and seller are not allowed
- Extra diligence and transaction review must be performed - Underwriter has the discretion to pursue any perceived concerns

Eligible NAL and IPT Transaction (Not Subject to Restrictions)

- Borrower representing themselves as a real estate agent
- Borrower is a mortgage broker or loan officer or works for submitting broker
- Borrower is related to realtor and/or loan officer who is representing them only
- Borrower earned commission is treated like seasoned funds, and may be used for down payment, closing costs or reserves
- Seller representing themselves in the real estate transaction
- Purchase between family members is allowed, however, any indication of a family bailout will require further documentation to determine if transaction is acceptable

Credit

- A credit report is required for each borrower.
- The report should provide merged data from the three major bureaus, Experian, Equifax, and Transunion
- A minimum of two credit scores are required
- One frozen bureau is acceptable

Age of Credit Docs

All credit doc expiration dates are measured to the Note Date

- Appraisal, and Prelim/Title work are valid for 120 days
- Credit Report, and Assets are valid for 90 days

Fraud Check

Newfi Lending will pull a fraud report, DataVerify DRIVE Report, on all loans and it will include all parties to the transaction - Newfi is responsible for clearing findings on the fraud report

Mortgage/Rental Verification

Institutional Lender/ Landlord

Payment history may be documented as follows:

- 12 months mortgage payment history on the credit report OR
- 12 months canceled checks OR
- Verification of Mortgage (VOM)/ Verification of Rent (VOR)

Non-Institutional Lender/ Landlord

- Payments must be verified with either canceled checks or bank statements AND
- A copy of the note or lease is required to verify payment amount and due date

Consumer Credit Charge-Offs and Collections

No Review or Payoff Required

Judgments or Liens

All open judgments, garnishments and liens must be paid at or prior to closing

- Cannot be paid with loan proceeds unless specifically tied to subject property

Income Tax Liens

All state, federal, and local liens must be paid and removed from title at closing or sooner

- Cannot be paid with loan proceeds unless specifically tied to subject property, for example:
 - Delinquent Real Estate Tax Lien
 - Mechanics Lien related to work done on subject property

Forbearance

Forbearance allows for borrower experiencing financial hardship to pause making mortgage payments. A recent forbearance, due to COVID-19, may be eligible based upon the following:

1. Borrowers who entered forbearance but continued to make timely payments and remained employed without income disruption, are eligible without any other requirements
2. Borrowers who participated in forbearance and missed payments have two options:
 - Pay loan current by making all missed payments from borrower verified funds **OR**
 - Make three monthly payments in lender modification plan after exiting forbearance
 - Third payment must be made prior to note date
 - Evidence the borrower has exited forbearance or entered the modification plan is required - This can typically be determined from the monthly statement or lender modification agreement or correspondence; however, any definitive means is acceptable

If either of the two options are met, there are no other restrictions.

Payments must be documented by canceled checks or bank statements, or on monthly mortgage statements - Credit supplements are not acceptable

This forbearance guidance applies to Borrower's primary residence and subject property only

Modifications resulting from Covid-19 forbearance are not considered as housing events

Credit Score

- All borrowers must have a minimum of two (2) credit scores
- Use the lower of two (2) or middle of three (3) credit score
- For loans with multiple borrowers use the lowest middle score

Tradelines / Credit Review

If the borrower has 3 credit scores, the minimum tradeline requirement is met

Note: if the credit scores are derived from thin credit, for example authorized user accounts or new accounts with minimal usage, the borrower will need to qualify with one of the four options below.

If the borrower has only 2 scores, one of the following three (3) options must be met

All borrowers need to meet either the 3-credit score threshold or meet one (1) of the minimum tradeline requirements listed below

There are three (3) options:

1. **3 of 12:** At least three (3) tradelines reporting for a minimum of 12 months, with all three (3) having activity in the last 12 months, accounts can be open or closed
2. **2 for 24:** At least two (2) tradelines reporting for a minimum of 24 months, with both

Correspondent Sequoia DSCR Guidelines

having activity in the last 12 months, accounts can be open or closed

3. **8 for 8:** No fewer than eight (8) tradelines are reporting, one (1) of which must be a mortgage or a rental history
 - At least one (1) tradeline has been open and reporting for a minimum of twelve (12) months
 - The borrower has an established credit history for at least eight (8) years

The following may not be considered as tradelines:

1. Non-traditional credit as defined by Fannie Mae
2. Liabilities in deferment
3. Accounts discharged through bankruptcy
4. Authorized user accounts
5. Charge-offs
6. Collection accounts
7. Foreclosures
8. Deed in lieu of foreclosure
9. Short sales
10. Pre-foreclosure sales
11. Self-reported tradelines

Credit Review

Review of inquiries is not required

Housing History

Document the pay history covering the most recent 12 months for the subject property and the borrower's primary residence - The payment history for any other REO is not required or evaluated if provided

- Max 1X30X12 on mortgage/rental debt for primary residence and subject property allowed
- Max 0X30X12
 - DSCR $\geq 0.80 < 1.00$ **AND/OR**
 - Credit scores below 660
- Borrowers living "rent free" in a home they do not own or rent, must provide supporting documentation: property profile and LOE from the owner or lessee

Significant Credit Event Waiting Periods

Foreclosure, Short Sale, Deed in Lieu, Any BK, Modification:

≥ 36 Months: no restrictions

Assets

Requirements

- Must be dated within 90 days of the note
 - Only large deposits from a borrower's business need be addressed. See section on business assets for further guidance
 - Foreign assets may be used for down payment and closing costs with the following:
 - Assets must be verified in USD at current exchange rate <http://www.xe.com>
- AND**
- Two (2) months recent statements

Non vested or restricted stock accounts are not allowed

Joint Accounts: Access letters from co-owners are not required provided our borrower is clearly an account owner

Business Funds

May be used for down payment and reserves on all income types, with the following:

- Document borrower's ownership position in the business
- Funds up to the percentage of the borrower's ownership position may be used with no restriction. For example: account shows a balance of \$100K, borrower is 50% owner of the business, then \$50K can be used
- Large deposits into a business account do not need to be addressed

Crypto Currency

Crypto currency that has been converted to USD is an acceptable source of funds provided the crypto can be acceptably documented. Recently this asset type has gained more widespread popularity and documentation has improved. The documentation must show the acquisition date of the asset and it must show a sufficient history to meet 60-day seasoning requirements. Not all crypto currencies or crypto brokerages will provide for adequate documentation. An abundance of care must be used in reviewing statements provided.

Gift Funds

A minimum of 10% borrower contribution is required

Gift funds may not be used for reserves

Gift donor must be a family member, domestic partner, fiancé – Follow FNMA guidance

Reserves

All reserve requirements are based on subject property PITI or ITI if applicable

If transaction fits 2 categories listed below, only the larger requirement applies

Loan proceeds may be used to meet the reserve requirement

- 4 months PITI required
- 6 months PITI required for loan amount > \$1.0 mm

- 12 months PITI required for loan amount > \$2.0 mm
- 12 months required for Foreign National for all loan amounts
- 8 months requirement for Novice Investor for all loan amounts

Acceptable Sources of Reserves

- IRA and other non-employer related savings plans
- Funds in non-cash holdings, stocks, bonds, mutual funds are not required to be discounted
- Cash-Out proceeds may be used to meet the reserve requirement

Unacceptable Sources for Reserves

- Reserves may not come from a 1031 exchange account
- Reserves may not come from gift funds
- Employer sponsored savings plans, like 401k
 - A 401k where the borrower is no longer employed by the company holding the 401k is treated like an IRA

Transcripts

Not required

Appraisal Requirements

Appraisers must meet all industry standards. All appraisals must be performed in accordance with the Uniform Standards of Professional Appraisal Practice and Fannie Mae guidelines. All appraisals must conform to Universal Appraisal Dataset (UAD) requirements. Appraisal assignments must be obtained in a manner that maintains appraiser independence and does not unduly influence the appraiser to meet a predetermined value.

A full interior/exterior report with color photos is required on one of the following forms:

Uniform Residential Appraisal Report	Forms 1004 / 70
Small Residential Income Property Report	Forms 1025 / 72
Individual Condominium Unit Appraisal Report	Forms 1073 / 465
Appraisal Update and/or Completion Report	Forms 1004D / 442
Single Family Comparable Rent Schedule	Forms 1007 / 1000

- The appraisal should be dated no more than 120 days prior to the note
- Appraisal recerts are allowed and are good for 120 days
- Properties with Condition Ratings of C5 and C6 and/or a Quality Rating of Q6 are not allowed

Second Appraisal

A second appraisal is required

Correspondent Sequoia DSCR Guidelines

- Loan amounts greater than \$2,000,000
- The transaction is a flip (see Property Flipping section)

When a second appraisal is required, the value is based on the lower of the two (2) values. The second appraisal must be from a different company and appraiser than the first appraisal.

Transferred Appraisal

Transferred appraisals are acceptable.

If two (2) appraisals are required, two (2) transferred appraisals may be acceptable via exception only.

Appraisal Review Product

An appraisal review product is required on every loan unless a second appraisal is obtained, one of the three options below is acceptable:

- CDA from Clear Capital OR
- Collateral Underwriter (CU Score) less than 2.5 OR
- A field review or a second appraisal is also acceptable – These must be from a different company and appraiser than the first appraisal. Ordering a field review or second appraisal requires underwriting supervisor or manager approval.

If the CDA reflects a value of 10% or less below the appraised value, the appraised value is accepted.

If the CDA reflects a value of more than 10% below the appraised value, a field review or a second appraisal is required. Ordering a field review or second appraisal requires underwriting supervisor or manager approval.

Minimum Square Footage Requirements

There are no minimum GLA requirements for any of the eligible property types, however, GLA of the subject property must be considered common, must be supported by comparables in the appraisal, and present no market resistance.

Declining Markets

If the trend of property values is downward, a declining market exists and a 5% LTV reduction from the LTV product matrices for LTVs greater than 70%.

Property Flipping

A property is considered a flip if either of the following are true:

- The purchase price exceeds the seller's acquisition cost by more than 10% if the property was acquired 90 or fewer days prior to the borrower's purchase contract date.
- The purchase price exceeds the seller's acquisition cost by more than 20% if the property was acquired 91 – 180 days prior to the borrower's purchase contract date.

If the property is a flip, the following requirements apply:

Correspondent Sequoia DSCR Guidelines

- A second appraisal is required
- If the loan is subject to Reg Z, a copy of the second appraisal must be provided to the borrowers in compliance with HPML rules
- The second appraisal must be dated prior to the loan consummation date/ note date.
- The seller must be the owner of record
- Increases in value require commentary from the appraiser as well as recent comparable sales

Sufficient documentation to validate actual cost to improve/renovate must be provided, if applicable

Property

Eligible Properties

- Single family detached
- Single family attached
- PUD
- 2-4 units
- Fannie Mae warrantable condos
- Non-warrantable condo (available via exception only)
- Modular homes

Rural Properties

Not allowed

- A property is classified as rural if the appraiser indicates in the neighborhood section of the report a rural location OR
- Any two (2) of the following are present:
 - The property is located on a gravel road
 - Two (2) or three (3) comps are more than five (5) miles from the subject property
 - Less than 25% of the surrounding area is developed

Acreage Limitations

Maximum of three (3) acres

Ineligible Properties

- Condotels
- Mixed used properties
- Vacant land
- Properties not readily accessible by roads that meet local standards
- Properties not suitable for year-round occupancy

- Agricultural properties, including farms, ranches, or orchards
- Manufactured or mobile homes
- Timeshares
- Cooperatives
- Boarding houses
- Bed & Breakfast
- Properties with zoning violations
- Dome or geodesic homes
- Group homes, for example, assisted living and drug/alcohol rehab facilities
- Homes on Native American Land
- Log homes and log style
- Hawaii properties in Lava Zones 1 and 2
- Houseboats
- Fractional ownership i.e.: TIC
- Properties used for marijuana cultivation activities
- Leaseholds

Condos

Fannie Mae Limited or Full Project review process may be used to determine eligibility

- Projects consisting entirely of detached (site) units do not require a project review and are eligible for single family dwelling LTV/CLTV
- Two-to-four-unit projects do not require a project review so long as the following are met:
 - Project is not a houseboat, timeshare, or segmented ownership
 - The priority of common expense assessments applies
 - Standard insurance requirements apply

Project Requirements

- Project has been created and exists in complete compliance with all applicable local, state and all other regulations and laws
- Meets all Fannie Mae insurance requirements
- Borrower is required to carry HO-6 if the master insurance does not cover walls-in with betterments and improvements
- Project documents do not give a unit owner or any other party priority over the rights of the first mortgage

Non-Warrantable Projects

The following may be considered via exception on DSCR ≥ 1.0 **ONLY**:

- Investor concentration greater than 50%
- Commercial space greater than 25%

Correspondent Sequoia DSCR Guidelines

- Single owner/entity ownership greater than 20%
- Annual budget allocation to reserves < 10% allowed with the following:
 - Appraisal shows no major repairs required **AND**
 - A lower annual allocation permitted if the following reserve balance thresholds are met:
 - 7% to 9.99% requires reserve fund balance of 50% of annual budget
 - 5% to 6.99% requires reserve fund balance of 75% of annual budget
 - 3% to 4.99% requires reserve fund balance of 100% of annual budget

DSCR Calculation

Monthly Gross Income / PITI of the subject property = DSCR Ratio

On Interest only products, the DSCR ratio is calculated using the interest only payment

Documentation Requirements

Purchase: Form 1007 rent survey and leases or estopels if existing tenant are staying with the property.

Refinance: Fannie Mae Form 1007 **AND** existing lease if the appraisal reflects that the property is tenant occupied.

Rental Income Calculation: Purchase

Long Term Rents (LTR)

- Use the lower of estimated market rent from the 1007 or the lease agreement (if applicable)
- On the purchase of a vacant or seller occupied property, the rents from a 1007 can be used
- A new lease within 120% of the 1007 can be used provided the first month rent and security deposit are paper trailed to the borrower's bank account or placed into escrow

Short Term Rents (STR)

- STR may be used to a max LTV of 75% and on DSCR > 1.0 only
- STR on purchase is available to experienced investors only
- STR income can be determined using one of the three methods described below. 80% of the actual or estimated gross receipts will be used to determine the qualifying rental income. The three different income options are as follows:
 1. Use of STR listed on the 1007
 2. Use of an STR estimate "Rentalizer" from online data provider AirDNA
 - Market Score or Sub-Market Score
 - Market or Sub-Market score of 60 or better, **OR**
 - Sub-Market Score of 50 or better with Rental Demand or Rental Growth at 60 or higher
 - Occupancy Rate

Correspondent Sequoia DSCR Guidelines

- Minimum 60% occupancy required (Market or Sub-Market), however, minimum 57% is acceptable with 12 months reserves

3. Rental data provided by the seller of the property or seller's property manager

Transaction is ineligible if any tenant is a family member of the borrower

A 1007 is required on all transactions

DSCR is calculated on all transactions

Rental Income Calculation: Refinance

Long Term Rents (LTR)

- Use the lower of estimated market rent from the 1007 or the lease agreement
- If the lease is higher than the 1007 rents, it may be used with two (2) months proof of rent received
- If the current lease has expired, it may be used provided the appraisal shows the property it clearly tenant occupied and the 1007 meets or exceeds the current rent
- A new lease within 120% of the 1007 can be used provided the first month rent and security deposit are paper trailed to the borrower's bank account or placed into escrow. New lease amount over 120% of 1007 rents may be used, via exception, provided support is provided. A new lease is one where only one month of rent has been collected.

Short Term Rents (STR)

- STR may be used to a max LTV of 75% and on DSCR > 1.0 only
- Short term rental income permitted with use of a 12-month look back to determine average monthly rents. Annual or monthly statements from Airbnb or similar service required
- If the subject has less than twelve-month history the rent may be used for DSCR purposes provided an AirDNA Rentalizer supports the run rate of the actual rents received. The rentalizer will show any seasonal aspects, the underwriter will exercise care in determining a suitable normalized qualifying rent amount.
- 80% of the gross rents will be used for qualifying income

For DSCR >= 1.0 only

Property acquired, or placed in service, in the two months prior to application date, which are vacant due to borrowers updating the property.

- For long term rents use the 1007 rents. Property must be documented to be in ready to rent condition and listed for rent.
- For short term rents 80% of the estimated gross receipts will be used to determine the qualifying rental income.
 - STR listed on the 1007
 - Use of an STR estimate "Rentalizer" from online data provider AirDNA

Correspondent Sequoia DSCR Guidelines

- Market Score or Sub-Market Score
 - Market or Sub-Market score of 60 or better, **OR**
 - Sub-Market Score of 50 or better with Rental Demand or Rental Growth at 60 or higher
- Occupancy Rate
 - Minimum 60% occupancy required (Market or Sub-Market), however, minimum 57% is acceptable with 12 months reserves
- Property must be staged for STR and be listed on a STR facilitator site like VRBO or AirBNB

Transaction is ineligible if any tenant is a family member of the borrower

A 1007 is required on all transactions

DSCR is calculated on all transactions

Accessory Dwelling Unit (ADU) Rents

ADUs are becoming increasingly popular in many locations across the US as housing gets more scarce and more expensive. Using rents from an ADU are acceptable with the following requirements:

- Appraisal shows the ADU to be legal
- Appraiser to provide comparables with ADUs
- Multi-family or multi-ADU acceptable provided total unit count is less than or equal to four

Refinance

- Appraiser to address ADU rents on a 1007

Purchase

- Follow guidance above Rental Income Calculation section

Investor Types

The timelines for all 3 Experience Level categories listed below is counted backwards from our closing (doc) date.

Experienced Investor

A borrower who has owned one (1) or more non owner-occupied investment properties for at least 12 months (investment and commercial properties can be included) during the most recent 36-month period. Ownership may be documented with the following:

- Property profiles demonstrating ownership date property was acquired

Verification of the minimum number of properties for an experienced investor is required

Novice Investor

A Novice Investor does not meet the Experienced Investor requirements and are allowed with the following restrictions:

- Max LTV/CLTV Purchase, Rate/Term: reduce max allowed LTV by 5%
- Max LTV/CLTV Cash-out: reduce max allowed LTV by 5%
- Minimum 680 credit score
- Minimum Reserve Requirement is 8 months
- STR income allowed on refinance transactions only
 - must use actual STR income with a 12-month lookback **OR**
 - actual income less than 12-month history supported by an AirDNA report

100% estimated STR rent is not allowed

First Time Property Owner

Not allowed. Defined as a borrower who has not owned real estate in the most recent 36 months.

DSCR: Foreign National Option

For any questions not addressed in this Foreign National section, please refer to previous relevant sections in this guide.

The Foreign National Option provides financing for foreign national investors looking to acquire or refinance real estate in the United States.

- Borrowers must live outside the USA
- Foreign Nationals living in the USA without legal residency are not allowed

Document the country location of primary residence

- Borrowers domiciled outside the US must provide one of the following: passport, utility bills, housing lease, financial statement. Other documents may be satisfactory, however, these are the most commonly available
- Borrowers on the U.S. OFAC list or with diplomatic immunity are not eligible

Eligible Borrowers

Only borrowers fitting the foreign national category and residing in the following countries are allowed:

- United Kingdom
- Canada

- Mexico
- South Korea
- Germany
- Greenland
- Japan
- Australia
- India
- Finland
- Guam
- Puerto Rico

Ineligible

- Novice Investors
- First Time Property Owners
- STR Income. STR properties which qualify using LTR are eligible.

Credit

Borrowers with US credit must meet one of the minimum tradelines listed below

Tradelines with recent serious adverse history are not acceptable

Rental verification can be included as a tradeline Student loans can be counted in credit depth if they are in repayment and not being deferred

- Option #1 - 3 for 12: At least three (3) tradelines reporting for a minimum of 12 months, with all three (3) having activity in the last 12 months, accounts can be open or closed
- Option #2 - 2 for 24: At least two (2) tradelines reporting for a minimum of 24 months, with both having activity in the last 12 months, accounts can be open or closed

For borrowers providing a U.S. credit report, document the pay history covering the most recent 12 months for the subject property and the borrower's primary residence The payment history for any other REO is not required or evaluated if provided. For borrowers without a U.S. credit report, no housing payment history required

- Max 0X30X12
- Review of inquiries is not required

Significant Credit Event Waiting Periods

Bankruptcy, Foreclosure, Deed in Lieu, Loan Modifications, Short Sale

- ≥ 36 months

Borrowers without US credit need 2 trades with a 24-month history showing activity in the last 12 months. Any of the options below can be combined to meet the 2 for 24 requirements:

- 24-month housing history (mortgage or lease)
- 2 X 12 months financial statements, like a credit card bill (2 X 12 satisfies one trade)
- Credit letter of reference (LOR) demonstrating a 12-month payment history (satisfies one trade)
- US or foreign credit report (trades from the credit report can be combined with the other options)

Letter of Credit (LOR) Requirements

The Letter of Credit must be from an internationally known financial institution containing the below information:

- Borrower's name
- Name, title, and contact info for person preparing the LOR
- Document must be in in English or translated
- Clearly define the financial debt relationship
- Provide a minimum of 12 months payment history

Cash Out

Max Equity Withdrawal

- >50% LTV up to \$300k allowed
- <= 50% up to \$500k allowed

Reserves

The minimum reserve requirement for all loan amounts is 12 months. Cash out proceeds may be used to meet required reserves.

Foreign Assets

Foreign assets may be used for down payment, closing costs, and reserves.

Assets must be verified in USD at current exchange rate <http://www.xe.com>

Statements must be translated.