



**QUONTIC BANK**

**CLOSED-END SECOND MORTGAGE**

**LITE DOC**

**PRODUCT GUIDELINES**

01/27/2025

<b>LITE DOC SECONDS</b>				
<b>1-4 FAMILY, CONDO, PUD</b>				
OCCUPANCY	Units	MAXIMUM LOAN AMOUNT	MAX CLTV	MIN FICO
PRIMARY RESIDENCE	1-4	\$500,000	80%	720
	1-4	\$500,000	75%	700
	1-4	\$500,000	70%	680
SECOND OR VACATON HOME	1	\$500,000	65%	700
	1	\$500,000	60%	680
INVESTOR	1-4	\$500,000	75%	720
	1-4	\$500,000	70%	700
	1-4	\$500,000	65%	680
NOTES	<ul style="list-style-type: none"> <li>• Minimum Loan Amount: \$100,000; \$200,000 for Primary Residence Texas Properties.</li> <li>• Loans located in Texas are subject to Texas Home Equity 50(a)(6) requirements.</li> <li>• Non-Warrantable Condos - Max 70% CLTV</li> <li>• Second Homes: 2-4 Unit Properties are Ineligible.</li> <li>• Co-ops are Ineligible.</li> <li>• Rural Properties:               <ul style="list-style-type: none"> <li>○ Primary Residence &amp; Second Home Only (No Investment Properties)</li> <li>○ Max 10 acres</li> <li>○ Max 75% CLTV</li> </ul> </li> </ul>			

## UNDERWRITING GUIDELINES

The following guidelines are specific to: **Lite Doc Seconds**

### Application:

- Complete and fully executed Uniform Residential Loan Application (URLA) 1003 form.

### Minimum Loan Amount:

- \$100,000
- \$200,000 for Texas Properties

### Maximum Loan Amount:

- \$500,000

### Maximum Combined Loan Amount (total UPB of first and second liens combined):

- Primary Residences: \$3,000,000
- Second-Home: \$2,000,000
- Investment Properties: \$3,000,000

### Loan Terms:

- 15-Year Fixed
- 30-Year Fixed

### Qualification Rates:

- The note rate is used to calculate the qualifying PITI(A).

### Borrower Eligibility:

- US Citizens.
- Permanent Residents.
- Non-Permanent Residents with valid Employment Authorization or VISA.
- Corporations and LLCs (Investment Properties Only; more information to follow)

### Ineligible Borrowers:

- ITIN Borrowers
- Foreign Nationals
- Non-Occupant Co-Borrowers

### Subject Property Financing Restrictions:

- Max two (2) consumer lending products on a single property inclusive of subject second lien.
- 1st Lien cannot be a HELOC.
- New subject lien may pay off existing junior lien on property.
- Loans located in Texas are subject to Texas Home Equity 50(a)(6) requirements.

### First Lien Eligibility:

- First Lien cannot have or be:
  - Open renovations
  - Negative amortization
  - Interest-Only where there is less than 7 years of interest-only payments left
  - PACE loan (or any similar loans with payments that are included in property taxes or take lien

- priority).
- In active forbearance or deferment
- A balloon that comes due during the amortization period of the second lien
- Reverse Mortgage
- Private 1<sup>st</sup> Lien
- First Lien HELOC
- Land Contracts
- Cross Collateralized loans

**Ineligible 1<sup>st</sup> Lien Transactions:**

- Construction Loans
- Temporary Buydowns
- Builder Bailout & Model leasebacks
- Conversion Loans
- Rent Credits
- Non-Arm's Length
- Lease Option
- Subject Loan being used as Bridge financing.
- Cross Collateralized
- Renovation Loans

**Credit Requirements:**

- Credit reports expire after 90 days.
- Minimum tradelines:
  - 3 tradelines reported for at least 12 months each, **OR:**
  - 2 tradelines reported for at least 24 months each.
- No late mortgage payments (on subject or other REO) in prior 12 months.

**Eligible Properties:**

- Single-Family Residences
- 2-4 Units (2-4 Unit Second Homes are ineligible)
- PUDs
- Warrantable Condos:
  - Condo Projects will be determined as “Warrantable” if found on FNMA/Agency investor approved list(s).
  - If the project is not found on the aforementioned approval lists, project warrantability will be determined via minimum FNMA Limited Review Eligibility requirements:
    - Not be considered a FNMA Ineligible project (see FNMA Guide Section B4-2.1-03)
    - Meets FNMA Appraisal requirements, Chapter B4-1 (as determined by QB)
    - Meets FNMA Insurance requirements, Chapter B7-4 (as determined by QB)
    - Project does not consist of Manufactured Housing
    - Project is complete, including all units and common elements.
- Non-Warrantable Condos: Max 70% CLTV
- Rural Properties:
  - Primary Residences and Second Home Only (No Investment Properties)
  - Max 10 acres
  - Max 75% CLTV

**Ineligible Properties:**

- Coops
- Condotels
- 2-4 Unit Second Homes
- Unique Properties
- C5 or C6 Property Condition Grades
- Working Farms
- Rural Properties with more than 10 acres or investment.

**State Restrictions:**

- Properties located in HI Lava Zones 1 & 2 are Ineligible.

**Property Seasoning:**

- Borrower must have owned subject property for at least 6 months.

**Debt-to-Income Ratio ("DTI"):**

- Max 50% DTI Ratio by using Profit & Loss Statement (P&L) or Verification of Employment (VOE) only (see below for details).

**Rental Income:**

- Investment and Owner-Occupied 2-4 Family Properties:
  - Rental income used for qualifying purposes will be 75% of the lesser of the documented rent(s) or market rent(s) per the appraisal.

**Employment/Income Documentation:**

- Wage-Earning Borrowers
  - Written Verification of Employment (VOE) requested by Quontic verifying at least two years of employment and current income only (prior years' income is not required). VOE must be completed and signed by employer.
  - If business is family-owned, VOE must be completed and signed by the business's CPA/Accountant/Tax Preparer.
  - Satisfactory verification of employer's validity to be completed by Quontic. These would include but are not limited to:
    - Google search (or comparable search engine)
    - Reverse phone search
    - Corp/LLC search per State Registry
    - Filed Articles of Organization/Incorporation, Operating Agreement, or BylawsQuontic staff to make notation/explanation on the 1008 is required if there are no returns when attempting an internet search.
- Self-Employed Borrowers – Business Income / Validation:
  - Must be self-employed for at least 1 year and in the same line of business for at least 2 years.
  - Business License / Registration / Certification / Credentials to be provided, if applicable.
  - An internet search or other satisfactory verification of the business is required with documentation to be included in the credit file to support the business's existence. These would include but are not limited to:
    - Google search (or comparable search engine)
    - Reverse phone search
    - Corp/LLC search per State Registry

- Filed Articles of Organization/Incorporation, Operating Agreement, or Bylaws  
Quontic staff to make notation/explanation on the 1008 is required if there are no returns when attempting an internet search.
- Self-Employed Borrower – CPA/Accountant/Tax Preparer/Enrolled Agent – Income Verification
  - CPA/Accountant/Tax Preparer/Enrolled Agent’s letter confirming:
    - Length of relationship with borrower
    - Borrower’s position/title
    - Ownership percentage of company
    - Business inception date, and
    - Statement on good standing of the borrower’s business
  - CPA/Accountant/Tax Preparer/Enrolled Agent prepared 12-month Profit & Loss Statement (P&L) for a period ending within 90 days of closing.
  - Letter and P&L must be dated and signed on accounting firm’s letterhead evidencing signer’s contact information, or completed using Quontic Profit & Loss and Self-Employment Letter forms. CPA/Accountant/Tax Preparer/Enrolled Agent must have a valid PTIN (preparer tax identification number). Letter and/or P&L must not contain any exculpatory language that may compromise the integrity of the information provided.
  - CPA/Accountant/Tax Preparer/Enrolled Agent must have an existing relationship with the borrower for at least one (1) year or have filed the borrower’s most recent tax return. Quontic reserves the right to request additional information such as accepting a letter and P&L from a preparer with a shorter relationship history or from a preparer that did not file borrower’s last tax return. This would be accompanied with a satisfactory explanation and supporting documentation establishing the accountant-client relationship. Examples may include but are not limited to: completing borrower’s business IRS Form 941 for the most recent quarter, review of last 12-months’ business documents to produce P&L and intent to file next year’s returns, etc.
  - Satisfactory verification of business and CPA/Accountant/Tax Preparer/Enrolled Agent validity to be completed and documented by Quontic staff. Examples of verifications would include but not be limited to:
    - PTIN search <https://www.ptindirectory.com/membership-certificates.cfm>
    - CPA verification <https://cpaverify.org/> (CPA’s only)
    - IRS website

#### **Other Real Estate Owned:**

- All Real Estate Owned (REO) that is:
  - a) Owned in borrower's personal name, and/or;
  - b) Borrower is personally liable on the mortgage and appears on the borrower’s personal credit report (even if the property is held under an entity),must be listed on the on Section VI Assets and Liabilities Schedule of Real Estate Owned of the 1003 application. If these properties are financed, they must be linked to at the appropriate mortgages from the Liabilities section of the 1003.
- If borrower owns real estate under an entity (Corp/Inc./LLC) where there is *either*:
  - a) No mortgage or;
  - b) The mortgage is under the entity (i.e., does not appear on the borrower’s personal credit report),property does *not* need to be disclosed on the application.
- Section VI Assets and Liabilities Schedule of Real Estate Owned of the 1003 application must be fully completed to include the following information:
  - Present Market Value

- Amount of Mortgages & Liens
- Gross Rental Income (note: will use 75% to qualify loan)
- Mortgage Payments
- Other Expenses not escrowed in mortgage payment (taxes, insurance, HOA, etc.)
- If using rental income from other real estate owned to qualify, CPA/Accountant/Tax Preparer/Enrolled Agent to provide signed and dated letter on accounting firm’s letterhead or completed Quontic Rental Income Form confirming all properties owned by the borrower and the monthly/annual gross rental income from each of those properties.
- Verification of properties owned free-and-clear is required.

**Asset Verification:**

- One-month recent bank statement(s) (all pages) covering a period of at least 30-days evidencing balance of funds to close, closing costs, and reserves (see product-specific guidelines for reserve requirements). For any large deposits other than those clearly indicating that they came from a depository institution titled to borrower, borrower must provide a letter of explanation and supporting documentation. Undocumented / Unsourced single and/or cumulative deposits up to \$10,000 within the transaction period may be used in the qualifying assets. Any undocumented / unsourced single and/or cumulative deposits over the \$10,000 limit within the transaction period will be deducted from the qualifying assets.
  - Note: On Refinance transactions, documentation or explanation for large deposits is *not* required for reserves; however, borrower must confirm if any funds have been borrowed. If borrower requires cash to close the transaction, deposit verification guidelines apply.
- Joint account holders not on the loan application must provide a letter stating that Borrower has access to 100% of funds in the bank account(s).
- If Business assets are to be used, the business’s Accountant/CPA/Tax Preparer must verify that business will not be adversely impacted by Borrower withdrawals.
- Gifts are not permitted.

**Cash Reserve Requirements:**

CLTV	Minimum Reserve Requirement
Less than or equal to 65%	0 months PITIA
Greater than 65%	3 months PITIA

- **Cash Reserves Notes:**
  - Cash-out proceeds may NOT be used and applied towards Reserves. Reserves must come from borrower funds.
  - Reserve requirements apply to subject property PITIA only.
  - Borrowers who own other financed properties are required to evidence an additional 1 month of PITIA reserves for the subject property for each additional financed property, capped at a maximum total of 18 months PITIA reserves.

**Vesting:**

- Owner-Occupied Properties (includes Second Homes):
  - Natural Persons
  - Inter Vivo / Living Revocable Trusts upon approval by Quontic counsel.
- Investor Properties:
  - Natural Persons
  - Limited Liability (LLC), Partnerships, Corporations, and S Corporations (Corp/Inc):
    - Entity purpose and activities are limited to ownership and management of real

- property.
- Business entities are limited to a maximum of 4 owners or members.
- All members, partners, or shareholders of the entity with a 25% or greater ownership interest must complete and sign a 1003 Loan Application and provide personal guarantee (guarantor). Each guarantor's credit score and creditworthiness will be used to determine qualification and pricing.
- Each member of the entity must receive notice of the loan and its terms prior to closing.

#### **Corporations and LLCs:**

- The following documentation must be provided:
  - IRS Letter evidencing the EIN
  - Filing Receipt
  - Articles of Organization (on LLC's only)
  - Operating Agreement (on LLC's only)
  - Articles of Incorporation (on Corp/Inc's only)
  - Bylaws (on Corp/Inc's only)
  - CPA/Accountant/Attorney letter confirming members, their social security numbers, and percentage of ownership (if Operating Agreement or Bylaws do not provide ownership breakdown)
  - Certificate of Good Standing within 30 days of closing (if entity over 6 months old)
  - Certificate of Authorization for the persons executing all documents on behalf of the entity

#### **Acceptable Collateral:**

- Properties that are in good condition and up to residential code and regulations.
- Minor violations with no penalties and no exceptions from the title company are acceptable.

#### **Prepayment Penalties:**

- None

#### **Title Insurance:**

- For loan amounts less than or equal to \$400,000:
  - Owner's & Encumbrance Property Report; or
  - ALTA Standard Coverage Policy.
- For loan amounts greater than \$400,000:
  - ALTA Standard Coverage Policy.

#### **Property Insurance:**

- Refer to FNMA guidelines. A homeowner insurance policy must be obtained with replacement cost coverage equal to the *lesser* of the following:
  - 100% of the insurable value of the improvements, as established by the property insurer; *or*
  - the total unpaid principal balance of the mortgage(s), so long as it equals at least 80% of the insurable value of the improvements required to compensate for damage or loss on a replacement cost basis.
- Condominiums: Individual condo units must obtain a HO-6 Policy unless the Master Condo policy included walls in coverage.
- All Investment and 3-4 unit Primary residence properties require Rent-Loss coverage equal to or greater than 6 months of total gross rents.
- Properties located in Flood Zone must obtain Flood insurance with coverage of at least the *lower* of:
  - 100% of the replacement cost of the insurable value of the improvements,
  - The unpaid principal balance of the mortgage loan, *or*;
  - The maximum insurance available from the NFIP.



**Impounds:**

- Not Applicable.

**Personal Guarantee:**

- Full personal recourse required.

**Judgments and Liens:**

- All open judgments, garnishments, and all outstanding liens must be paid off prior to or at loan closing (prior approval required).

**Income Tax Liens:**

- All income tax liens (federal, state, local) must be paid off prior to or at loan closing (prior approval required).

**Bankruptcy History:**

- Chapter 7 / 11 - waiting period is 4 years from dismissal date or discharge date.
- Chapter 13 - waiting period is 2 years from discharge date or 4 years from dismissal date
- Bankruptcies are allowed if they have been settled. Evidence of bankruptcy resolution is required.
- Bankruptcies resolved require a letter of explanation from the borrower. The situation causing the bankruptcy must be adequately documented. The new housing payment must be considered when determining if the situation is adequately resolved.
- If multiple bankruptcies exist in this time frame each must be addressed in the explanation. Loans where the borrower has any late payments occurring after the bankruptcy may be considered on a case-by-case basis at QB's discretion.

**Foreclosures:**

- Must be aged 7 years without any other significant derogatory credit history after event.

**Short Sale/Deed in Lieu of Foreclosure:**

- Must be aged 4 years without any other significant derogatory credit history after event.

**Forbearance or Modification:**

- May be considered on a case-by-case basis without any other significant derogatory credit history after event.

**Appraisal Requirements:**

- For loan amounts greater than \$250,000, a full interior/exterior appraisal is required.
- For loan amounts equal to or less than \$250,000, either of the following is permitted:
  - a) New full interior/exterior appraisal or,
  - b) Automated Valuation Model (AVM) with Confidence Score of 0.90 or greater (or Forecasted Standard deviation (FSD) of 0.10 or less), AND a Drive-by, Property Condition Inspection (PCI). If the PCI indicates any material deferred maintenance, needed repairs, or other deficiencies/inadequacies, a full interior/exterior appraisal will be required.
    - If borrower disagrees with the AVM value, borrower may contest the AVM value, and, in writing, request a full interior/exterior appraisal completed on the subject property at the borrower's cost. The appraisal value will supersede the AVM value.
- Loans with HPML designation require a Full Appraisal. See HPML Section for more details.
- Properties located in Texas require a full interior/exterior appraisal regardless of loan amount.
- When full interior/exterior appraisal is obtained, a Collateral Desktop Analysis ("CDA") is also

required. The CDA will be ordered upon receipt and review of the appraisal. If the CDA value is within 10% of the appraisal value, loan will proceed using the appraisal value. If the CDA value is more than 10% less than the appraised value, borrower will have the option to either:

- a) Proceed using the CDA value as the “Appraised Value”, *or*;
  - b) Contest the CDA value and, in writing, request a second appraisal completed on the subject property, at the borrower’s cost. The transaction’s “Appraised Value” will then be the *lesser* of the two appraised values.
- Declining Markets: If the appraisal indicates the subject property is located in a declining market, the maximum LTV will be reduced by 5%.

#### Appraisal Transfers:

- Quontic may accept an appraisal transferred from another lender that originally ordered the appraisal with an accompanying Appraisal Transfer Letter. All transferred appraisals must comply with the Home Valuation Code of Conduct (HVCC) and Appraiser Independence Requirements (AIR). Transferred appraisals must be completed by an appraiser that is not on any Bank Ineligible List or Agency Exclusionary List. All transferred appraisals will be underwritten in adherence to Quontic’s standard appraisal review procedures.
- The Appraisal Transfer Letter must be on the letterhead of the original lender must include the following:
  - Current date;
  - Borrower name;
  - Property address;
  - A statement transferring ownership of the appraisal to Quontic;
  - The following statement “Transferring lender certifies that this appraisal was prepared in accordance with, and is compliant with, the Appraisal Independence Rules (AIR), Truth in Lending regulations, and all applicable laws, and;
  - Signature of Authorized Representative.
- The appraisal must be emailed in a suitable electronic format directly from the original lender to Quontic.
- Quontic must receive a copy of the appraisal invoice which evidences it is paid in full.

#### Higher-Priced Mortgage Loan (“HPML”):

- HPML defined as secondary / subordinate financing with an APR that is 3.50% above the APOR.
- HPMLs are permitted with the following requirements:
  - Loan complies with HPML appraisal rules in Reg. Z.
  - Loan must have Full Appraisal.
  - Second Appraisal required under the following circumstances:
    - Greater than 10% increase in sales price if the seller acquired the property in the past 90 days from purchase contract date.
    - Greater than 20% increase in sales price if the seller acquired the property in the past 91-180 days from purchase contract date.

#### High Cost:

- Federal High-Cost Loans are not permitted.

#### Points and Fees:

- Max Broker Compensation not to exceed 2.75% of the loan amount or maximum permitted by federal law as it pertains to High-Cost, whichever is less.

**Compliance:**

- All loans will be run through Compliance and Fraud Risk software by Quontic prior to closing. Upon review of reports, additional documentation may be requested.
- All Covered Loans must be designated as ATR compliant and must adhere to the standards set forth in the CFPB's Reg Z, Section 1026.43(c)
- Loans located in Texas are subject to Texas Home Equity 50(a)(6) requirements.
- E-signatures are permitted with the exception of the following documents:
  - Note
  - Mortgage
  - Deed of Trust
  - Closing Disclosure
  - Power of Attorney
  - Riders / Addendums
  - Any State-regulated Disclosures.
  - These documents require a wet signature.
- Wherever Guidelines are silent, Quontic will adhere to Fannie Mae guidelines.

**Benefit To Borrower:**

- Quontic reserves right to not accept any refinance loan applications which do not clearly evidence a benefit to the borrower for the refinance. This must be evidenced by at least one or more of the following:
  - Balloon payoff
  - Title transfer
  - Property retention
  - P&I reduction
  - Debt reduction
  - Cash-out proceeds greater than the limited cash out restrictions (2% of loan amount or \$2,000, whichever is less)

Supporting documentation and relevant calculations to support such benefit to the borrower must be provided.