

FAQs, Expanded Guidelines, Loan Scenarios

Hint: If you are searching for something specific, press and hold 'Ctrl' + 'F' simultaneously to access the Find Bar. Type in key words to highlight your search (ex: "LLC", "insurance", "reserves", etc.).

PLEASE NOTE:

For Internal Use Only. Scenarios presented on this page are not all inclusive and are meant for additional support in making credit decisions.

Subject Property / Collateral

Q – The Contract of Sale is e-signed. What additional documentation is required?

A – We require the Purchasers' E-Consent form. The e-consent for the Sellers is not required.

Q – What are the insurance requirements for a 1-4 family property?

A – A copy of HO-3 Homeowner's insurance binder for the subject property to be provided evidencing coverage equal to at least 100% replacement cost. The following terminology is acceptable and must be on the policy: Guaranteed Replacement Cost, 100% Replacement Cost, Extended Replacement Cost, Full Replacement Cost, or Replacement Cost. **If this verbiage is evidenced on the insurance, then nothing else is required, as only the insurer can determine the replacement cost. If, however, the insurer will not provide the verbiage, then we will require either:**

- 1. a Replacement Cost Estimator (RCE) provided by the insurer proving the amount on the binder sufficiently covers the replacement cost; OR,**
- 2. that the insurance coverage is equal to or greater than the total Cost-New evidenced on the appraisal.**

Investment properties must include at least 6 months' rent-loss coverage. For 3-4 unit primary residences, insurance must include at least 6-months' rent loss coverage. **Binder must evidence:** Named Insured, Mortgagee Clause (Quontic Bank ISAOA/ATIMA 3105 Broadway, Astoria, NY 11106), Property Address, Quontic Bank as the Mortgagee, and Loan Number. On Purchase transactions, the policy must have an effective date within the same month the loan is closing, ideally on the closing date and extending for a full 12-month term. On Refinance transactions, the policy that is currently in effect must have a remaining term of at least 60 days after closing. If it does not we must have a paid receipt or an invoice to collect the next year premium at closing.

Q – Is HO-2 Insurance acceptable in lieu of HO-3?

A – No. HO-2 only covers home on a "named-perils" basis. HO-3 covers home on an "all-risk" basis. HO-2 insurance is inadequate.

Q – What are the insurance requirements for a condo unit?

A – A copy of the HO-6 insurance binder for the subject unit is required. **Per 2/10/2020 Guidelines, replacement cost verbiage or proof of replacement cost (replacement cost estimator) is no longer required.** Whatever coverage the insurer deemed sufficient is acceptable. Investment condo units must include at least 6 months' rent-loss coverage. **Binder must evidence:** Named Insured, Mortgagee Clause (Quontic Bank ISAOA/ATIMA 3105 Broadway, Astoria, NY 11106), Property Address and Unit #, Quontic Bank as the Mortgagee, and Loan Number. On Purchase transactions, the policy must have an effective date within the same month the loan is closing, ideally on the closing date and extending for a full 12-month term. On Refinance transactions, the policy that is currently in effect must have a remaining term of at least 60 days after closing. If it does not we must have a paid receipt or an invoice to collect the next year premium at closing.

Q – The subject property is a New Construction, and real estate taxes have not yet been assessed by the county. How will real estate taxes be determined and how will we qualify the loan?

A – For new construction residences where upcoming real estate taxes are not yet assessed, real estate taxes will be determined using either:

1. calculations from title company, or;
2. letter from builder/seller stating the projected real estate taxes for the subject home / unit.

For our underwriting purposes, we will qualify loan using 115% of the real estate taxes estimated above. Often times the estimated real estate taxes for new construction condominiums are provided in the project's Budget. A breakdown of each unit's/unit type's HOA, Taxes, Assessments (if applicable) is included to determine the project's Budgeted Income. In such cases, we will use those figures to qualify the loan.

If this cannot be provided, in lieu of the letter we may use 2% of the Purchase Price to calculate the Annual Real Estate Taxes for the subject property / unit. **(NOTE: For California properties please see below)**

Note: Certain states and counties may reassess upon sale or may apply exemptions to the existing owner that do not automatically transfer to the borrower upon sale or the borrower may not be eligible for (i.e. homestead, senior, etc.). In these cases, the loan must be qualified using the full value of the assessed property taxes as applicable.

Q – In California the real estate taxes adjust after every purchase. How do we calculate the taxes for properties in CA?

A - On California purchases, in lieu of the tax search per the title report, we will calculate the annual real estate taxes using 1.25% of the sales price. On Refinances, we will go off the most recent tax bill or title report.

Note: Certain counties may reassess upon sale or may apply exemptions to the existing owner that do not automatically transfer to the borrower upon sale or the borrower may not be eligible for (i.e. homestead, senior, etc.). In these cases, the loan must be qualified using the full value of the assessed property taxes as applicable.

Q – The subject property is a condo (or coop) unit. How can we determine if the project is warrantable?

A – Condo & Coop 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 and QB Limited Project Review Questionnaire.

If the project is deemed Warrantable for QB based on a limited review, no further documentation is required other than the Master Project Liability and Property Insurance Policies (and Flood, if applicable).

If the project is deemed Not Warrantable for QB, the following will also be required/conditioned:

- Last two years financials (if latest year's financials are not yet filed/finalized, management company to confirm as such)

- 2022/2023 Budget (if last budget is not yet filed/finalized, management company to confirm as such)

The above will need to be reviewed by the underwriter to determine the project is adequately maintained and managed. If financials and/or budget evidence deficiencies in the project (i.e., recurring, unexplained losses year to year, projecting losses for the upcoming fiscal year, depletion of assets, etc.), the property and supporting documents will be sent for second review to the Underwriting Manager for final decision.

Q – The project is on FNMA/Agency investor approved list, but the approval evidences that documents are expired. Would the project still be deemed warrantable?

A – If documents have expired, with the exception of the master insurance policies, which are required in all cases, a limited review will be required to determine warrantability.

Q – The project's management company has provided a generic project questionnaire, but is unwilling to complete our QB Questionnaire form. Can we use the questionnaire they provided?

A – Guidelines require that our QB Questionnaire be provided with every loan. However, if the generic questionnaire provides all or most of the information required to complete our form, the processor may complete our QB questionnaire themselves, citing the information from the generic questionnaire. A Processor Cert will be required explaining why the form was completed by them. There cannot be any blanks on the form. Any unanswered questions that could not be ascertained by the generic questionnaire must be provided by the management company, either in the form of a letter on their letterhead or an email clearly verifying per person's name and contact information. Both questionnaires, the processor cert, and any additional correspondence between QB and the management company to be included in the submission.

Q – The subject property is a condo and the project has implemented an assessment for the remainder of the year. Will the assessment attributed to the unit be included in the qualifying ratios?

A – Yes, regardless of how long it lasts for. It must be included in the PITIA for qualifying purposes.

Q – The subject property is a condo and the project has a tax abatement. Will the loan be qualified using the abated or unabated tax amount?

A – If the abatement matures in less than 5 years of the disbursement date (closing date) of the loan, then we must qualify with the unabated tax amount. If the abatement matures in more than 5 years after the disbursement date of the loan, then we may qualify the loan with the abated tax amount.

Q - The project questionnaire indicates there is litigation on the condo/coop. Does this mean the project is non-warrantable?

A – This will depend on what the outstanding litigation is regarding. We follow FNMA's guidance when it relates to this issue. If we determine that pending litigation involves minor matters with **no impact** on the safety, structural soundness, habitability, or functional use of the project, the project is eligible/warrantable provided the litigation meets one or more of the following:

- non-monetary litigation including, but not limited to neighbor disputes or rights of quiet enjoyment;
- litigation for which the insurance carrier has agreed to provide the defense, and the amount is covered by the HOA's or co-op corporation's insurance;
- the HOA or co-op corporation is the plaintiff in the litigation and upon investigation and analysis the lender has reasonably determined the matter is minor and will result in an insignificant impact to the financial stability of the project;
- the reasonably anticipated or known damages and legal expenses are not expected to exceed 10% of the project's funded reserves;
- the HOA or co-op corporation is seeking recovery of funds for issues that have already been remediated, repaired, or replaced and there is no anticipated material adverse impact to the HOA or co-op corporation if funds are not recovered;
- litigation concerning localized damage to a unit in the project that does not impact the overall safety, structural soundness, habitability, or functional use of the project; **or**
- the HOA or co-op corporation is named as the plaintiff in a foreclosure action, or as a plaintiff in an action for past due HOA or co-op assessments.

Litigation that involves personal injury or death does not meet criteria for minor litigation unless:

- the claim amount is reasonably anticipated or known,
- the insurance carrier has agreed to provide the defense, **and**
- the reasonably anticipated or known damages are covered by the HOA's or co-op corporation's insurance.

Construction defect litigation in which the HOA or co-op corporation is the plaintiff are not considered a minor matter unless the HOA or co-op corporation is seeking recovery of funds for issues that have already been remediated, repaired, or replaced. In addition, there is no anticipated material adverse impact to the HOA or co-op if the funds are not recovered.

Documentation must be provided to support the analysis that the litigation meets the criteria for minor litigation as described above.

Q - What are the key eligibility criteria in determining if a condo or coop project is warrantable or non-warrantable?

A – First, always run the project name through FNMA and Agency approved project lists. If the project is approved on any of these lists, this will supersede any findings on the Limited Review Project Questionnaire. If the project is not eligible on the aforementioned lists or does not appear on them at all, the project maybe still be deemed warrantable via review of the questionnaire. In order for a project to be considered warrantable under the QB guidelines, it must meet the FNMA Limited Review guidelines for Established Projects, with **ALL** of the following 4 attributes being true:

1. The project is 100% complete, including all units and common elements;
 2. The project is not subject to additional phasing or annexation;
 3. Control of the HOA has been turned over to the unit owners; **AND**
 4. At least 90% of the total units in the project have been conveyed to the unit purchasers;
- Note:** A project may also be treated as an established project with less than 90% of the units sold to unit purchasers, provided the deficit is the result of the developer holding back units for rent. The following requirements must be met:
- the developer's share of the units held back for rental is no more than 20% of the project's total units;
 - HOA fees are paid current in developer-held units; **and**
 - there are no active or pending special assessments in the project.

Q - The project questionnaire indicates that the sponsor/developer still owns more than 10% of the total units in the project. Would the project be considered warrantable or non-warrantable?

A – If the developer or sponsor owns more than 10% of the total residential units in the project (i.e., less than 90% of the total units have been sold and closed to unit owners), the project could still be considered warrantable if ALL of the following criteria are met:

1. The developer's share of the units held back for rental is no more than 20% of the project's total units;
2. HOA fees are paid current in developer-held units;
3. There are no active or pending special assessments in the project;
4. The project is 100% complete, including all units and common elements;
5. The project is not subject to additional phasing or annexation; **and**
6. Control of the HOA has been turned over to the unit owners.

If the developer/sponsor owns more than 20% of the total units in the project (i.e., less than 80% of the total units have been sold and closed), the project would not meet the limited review guidelines and will be considered Non-Warrantable.

Q - The project questionnaire indicates that a single entity owns more than 20% of the total units in the project. Would the project be considered warrantable or non-warrantable?

A - If a single entity (including the developer or sponsor) owns more than 20% of the total residential units in the project, the project would not meet the limited review guidelines and will be considered Non-Warrantable.

HOWEVER, the following may be excluded from the single-entity ownership calculation:

- units that are owned by the project sponsor or developer and are vacant and being actively marketed for sale; or
- units that are controlled or owned by a non-profit entity for the purpose of providing affordable housing, units held in affordable housing programs (including units subject to non-eviction rent regulation codes), or units held by higher-education institutions for a workforce housing program.

The single-entity ownership requirement may be waived when the transaction is a purchase transaction that will result in a reduction of the single-entity ownership concentration. In such instances, ALL of the following requirements must be met:

- units owned by the single entity represent no more than 49% of the units;
- evidence is required that the single entity is marketing units for sale to further reduce single-entity ownership, with the goal of reducing the concentration to 20% or less of the project units;
- the single entity is current on all HOA assessments; **and**
- there are no pending or active special assessments in the project.

Q - Do we lend in projects (Condos/Coops/PUDs) that have re-sale, age, income, or any other owner-related restrictions?

A - Projects with any sort of re-sale restrictions present a severely negative impact on the marketability of the unit in the event borrower defaults and this becomes an REO. It is important to identify what the restrictions are in order to determine project warrantability and eligibility:

- If the only restriction is "Right of First Refusal", this is okay and the project can still be eligible as Warrantable.
- For projects with age restrictions, such as 55-and-older communities, we will allow financing to these projects as long as:
 - Borrower meets the age requirements, and;
 - The project must not have any rehabilitation, medical treatment, or elder-care facilities (for example, nursing homes).
 - The project will only be considered eligible as a Non-Warrantable. If both the above conditions are not met, the loan will be ineligible under all loan programs.
- For projects with income restrictions, such as low-to-moderate income (LMI), we will allow financing to these projects as long as:
 - the subject unit is NOT one of the LMI or income-restricted units.
 - The project will only be considered eligible as a Non-Warrantable. If the above condition is not met, the loan will be ineligible under all loan programs.

For all other re-sale or owner-related restrictions not identified above, the loan will be deemed ineligible under all loan programs.

Q - Can we lend on an Investment Coop unit?

A - No, Investment coops are not permitted. Only investment Condo units are permitted.

Q - Can we lend in a Condotel / Condo Hotel?

A - YES, as long as the subject unit is NOT part of the hotel program. The project will be considered as 'Non-Warrantable', whereas LTV restrictions and pricing adjustments will apply.

Q - Can we lend in a Condop?

A - No.

Q - Can we lend on properties with large acreage?

A - Unless specific program guidelines state otherwise, up to 20 acres. We follow FNMA's guidance on this topic: The property site should be of a size, shape, and topography that is generally conforming and acceptable in the market area. It must also have competitive utilities, street improvements, adequate vehicular access, and other amenities. Because amenities, easements, and encroachments may either detract from or enhance the marketability of a site, the appraiser must reflect them in his or her analysis and evaluation. The appraiser must comment if the site has adverse conditions or if there is market resistance to a property because the site is not compatible with the neighborhood or the requirements of the competitive market, and assess the effect, if any, on the value and marketability of the property. The appraisal must include the actual size of the site and not a hypothetical portion of the site for the subject property. For example, the appraiser may not appraise only 5 acres of an unsubdivided 40-acre parcel. The appraised value must reflect the entire 40-acre parcel.

What this means: it has to make sense; if the appraiser does not provide sales with comparable site size or acreage, or makes excessive site adjustments, this would not be acceptable. If subject property's site size is unique to the area and no comps can be provided, then the excess acreage cannot be given any significant consideration in the appraised value.

Q - Can we lend on properties with outbuildings, such as barns, shops, storage sheds, etc.?

A - That would depend on the type of outbuilding. We follow FNMA's guidance on this topic:

Type of Outbuilding

Minimal outbuildings, such as small barns or stables, that are of relatively insignificant value in relation to the total appraised value of the subject property.

Acceptability

The appraiser must demonstrate through the use of comparable sales with similar amenities that the improvements are typical of other residential properties in the subject area for which an active, viable residential market exists.

Type of Outbuilding

An atypical minimal outbuilding.

Significant outbuildings, such as silos, large barns, storage areas, or facilities for farm-type animals.

Acceptability

The property is acceptable provided the appraiser's analysis reflects little or no contributory value for it.

The presence of the outbuildings may indicate that the property is agricultural in nature. The lender must determine whether the property is residential in nature, regardless of whether the appraiser assigns value to the outbuildings

Q – Would we lend on farms or rural properties?

A – It depends. If a property is zoned for agricultural use, we must ensure that the property is residential in nature, its residential use is a permissible use under the zoning classification, and its use does not primarily involve commercial activities such as farming or ranching. We follow FNMA / FreddieMac regarding this top. For more information, please click on the following link: <https://sf.freddiemac.com/faqs/rural-properties-faq>

Q - Will we lend on a property zoned for "Exclusive Farm Use" (EFU)?

A – No. EFU zones are preserved and protected lands for continued and future commercial agricultural production and related uses. As such, even if the purchaser or current owners do not use the property for commercial use/production, the property would be ineligible for QB.

Q - What are examples of ineligible properties?

A – Ineligible properties include but are not limited to: Manufactured Homes, Unique Properties (Dome, Geodesic), True Log Homes, Vacant land, Hawaii Properties located in Lava Zones 1 or 2, Homes on Indian reservations, Condotels (if subject unit is part of hotel program), Houseboats, Multi-Unit with greater than four (4) units, Agriculturally Zoned as Exclusive Farm Use, Boarding Houses or Bed & Breakfast properties, Fractional Ownership/Time Shares, Assisted Living/Continuing Care Facilities, Working Farms/ranches/orchards, Properties not suitable for year-round occupancy, Properties in C5 or C6 condition.

Q – Purchase Agreement / appraisal states property has solar panels. What do we require for this?

A – We require a copy of the Power Purchase Agreement for the Solar panels evidencing the terms and conditions of the Lease agreement. If the Seller owns Solar Panels free and clear provide satisfactory evidence of same. If lease will be paid-off at closing with the proceeds of the sale/loan, must be evidenced on the Closing Disclosure. If lease will be transferred to the Purchaser at closing, we require a copy of the assignment of lease. The monthly lease payment must be included in the DTI calculation. The solar panels may not be included in the appraised value of the property. For more information, see [FNMA Properties with Solar Panels](#).

Q - Are we able to lend on properties that have business-use?

A – We follow FNMA's guidance when it comes to properties that have a business-use in addition to their residential use, such as a property with space set aside for including but not limited to, a day care facility, a beauty or barber shop, or a doctor's office. The following special eligibility criteria must be met:

- The property must be a one-unit dwelling that the borrower occupies as a principal residence.
- The borrower must be both the owner and the operator of the business.
- The property must be primarily residential in nature (over 50% residential use), AND
- The dwelling may not be modified in a manner that has an adverse impact on its marketability as a residential property.

The appraisals for such properties must include All of the following requirements:

- provide a detailed description of the mixed-use characteristics of the subject property;
- indicate that the mixed use of the property is a legal, permissible use of the property under the local zoning requirements;
- report any adverse impact on marketability and market resistance to the commercial use of the property; AND
- report the market value of the property based on the residential characteristics, rather than of the business use or any special business-use modifications that were made.

Q - Upon review of the appraisal, the appraiser identified that the property has an accessory / second kitchen. Is this allowed?

A – Yes, as long as the appraiser comments in the report that the accessory kitchen is common and/or customary to the area, and that it does not have any negative impact to the marketability of the subject. Appraiser may include comparable sales that also have this additional feature. Such situations must be brought to the underwriter's attention and QB reserves the right to reject any property in its sole discretion.

Q - Upon review of the appraisal, the appraiser identified that the property has a garage that has been converted to living space. Is this allowed?

A – First, we should ensure if the conversion was done with a proper permit or Certificate of Occupancy (C/O). If not, then approval is subject to a case-by-case basis. If conversion was done without a permit or C/O, appraiser must comment on if the improvements have been done in good workmanlike manner. Appraiser CANNOT include the converted space in the Gross Living Area (GLA) and CANNOT include it in the value. QB reserves the right to reject any property in its sole discretion. Converted Accessory Units (that include kitchen and bathroom) that were completed without proper permits or C/O are not acceptable.

Q - Upon review of the appraisal, the appraiser identified that the property has an extension, unknown if done with or without permit. Is this allowed?

A – First, we should ensure if the extension was done legally with a proper permit or Certificate of Occupancy (C/O). If not, then approval is subject to a case-by-case basis. If extension was done without a permit or C/O, appraiser must comment on if the improvements have been done in good workmanlike manner. Appraiser CANNOT include the extension in the Gross Living Area (GLA) and CANNOT include it in the value. QB reserves the right to reject any property in its sole discretion.

Q - Are we able to use an appraisal from another bank if it was ordered through one of our approved AMCs?

A – Yes. If the appraisal was ordered through one of our approved AMC's and they can transfer the appraisal over to us via transfer letter (note: USAP does not permit the appraiser to change the lender on the appraisal), along with the proper AIR compliance requirements, we may accept it. In regards to the appraisal effective date preceding the application date, the underwriter is required to complete cert acknowledging the fact that the appraisal was done prior to the application, and confirm that its okay/acceptable for the aforementioned reasons.

Q - Are we able to use an appraisal from another bank if it was NOT ordered through one of our approved AMCs?

A – Yes. 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) or 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;

- o Borrower name;
- o Property address;
- o A statement transferring ownership of the appraisal to Quontic;
- o 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;
- o 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.

In addition, Quontic will order a Collateral Desktop Analysis (CDA) and Exterior Property Condition Inspection (PCI) in order to validate appraisal and confirm property is in good exterior condition, respectively. Borrower is responsible for all CDA and PCI fees.

Q - On a Refinance, would we be allowed to use the market rent for the non-owner occupied unit to qualify the loan if the unit is vacant?

A - Market rents from the vacant unit may be used to qualify the loan with just cause. There are two instances where this would be allowed:

1. The property was recently purchased and new owner was actively marketing to tenants, and/or
2. The property was recently renovated, and now the owner is marketing to tenants.

With either scenario, borrower must also provide a letter explaining the vacancy. The statement will be validated by the appraisal report. If the appraisal does not indicate any recent renovations, this would disprove the explanation and we will qualify the loan without the market rent for said unit.

Q - Do we lend on a leasehold property?

A - Yes, we follow FNMA guidelines in regards to leasehold properties.

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Lease and Lender Requirements

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- The term of the leasehold estate must run for at least five years beyond the maturity date of the loan, unless fee simple title will vest at an earlier date in the borrower.
- The lease must provide that the leasehold can be assigned, transferred, mortgaged, and sublet an unlimited number of times either without restriction or on payment of a reasonable fee and delivery of reasonable documentation to the lessor. The lessor may not require a credit review or impose other qualifying criteria on any assignee, transferee, mortgagee, or sublessee.
- ?
- The lease must provide for the borrower to retain voting rights in any homeowners' association.
- ?
- The lease must provide that in addition to the obligation to pay lease rents, the borrower will pay taxes, insurance, and homeowners' association dues (if applicable), related to the land in addition to those he or she is paying on the improvements.
- ?
- The lease must be valid, in good standing, and in full force and effect in all respects.
- ?
- The lease must not include any default provisions that could give rise to forfeiture or termination of the lease, except for nonpayment of the lease rents.
- ?
- The lease must include provisions to protect the mortgagee's interests in the event of a property condemnation.
- The lease must provide lenders with:
- the right to receive a minimum of 30 days' notice of any default by the borrower, and
 - the option to either cure the default or take over the borrower's rights under the lease.

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Q - What is the minimum property condition Quontic will lend on?

A - Property must be rated with a minimum C3 rating. C4 will be considered on a case-by-case basis. C5 and C6 will be declined.

Q - Does Quontic have any overlays when it comes to 'flipped' properties, whereas the seller owned the property less than 6 months from reselling?

A - Yes. For owner-occupied properties, a second appraisal will be required for all loan programs if the seller acquired the subject property within the last:

- a) 90 days prior to the date of the consumer's agreement to acquire the property (purchase contract date) and the purchase price in the consumer's agreement exceeds the price the seller paid by more than 10%, or,
- b) 91 to 180 days prior to the date of the consumer's agreement to acquire the property (purchase contract date) and the purchase price in the consumer's agreement exceeds the price seller paid by more than 20%.

Please note that when a second appraisal is provided, the transaction's "Appraised Value" will be the *lesser* of the two appraised values.

Please note the above is NOT applicable to non-owner occupied / investor properties.

Q - Subject property's appraisal expired. Can a recertification of value be ordered? If so, how far removed from the appraisal can recert(s) be ordered?

A - Yes. The appraisal is good for 120 days from the effective date of the report. A recert can be ordered to verify the appraised value has not decreased since the original effective date. A recert extends the appraised value for an additional 120 days. Recerts may be ordered for up to 1 year from the date of the original appraisal report, as long as the recert is no more than 120 days old. Ex: Original appraisal was done 1/1/2022. Appraisal expires 4/30/2022. If a recert was obtained on 10/1/2022 and loan closed on or before 12/30/2022, this would be acceptable.

Q - Are surveys always required on QB loans?

A - Surveys are only required if there is a Survey Exception on the Lender's Title Insurance Policy. This included New York purchases. A survey endorsement ensures over any survey exceptions to the title insurance.

Q - Borrower is purchasing/owns an investment property located in an area that has predominately short-term rental. How do we qualify the subject property if that is the case?

A - The answer would be Program-Specific:

Investor Lite Doc, Investor Asset Utilization, and DSCR Plus:

- **Purchases:** Short-term (daily/weekly) market rents are not permitted. Even if the property is located in a short-term rental area, the Appraiser must only provide long term (monthly/annual) rents in order to qualify the loan. If this cannot be provided, loan cannot be done.
- **Refinances:** If borrower has been renting out the property on short-term basis, borrower must provide at least a 2 year history of receipt of the income. This can be accomplished by going to the AirBnB, VRBO websites and printing out the rent histories for the last 24 months of the subject. If this cannot be provided, it's a hard stop. The idea behind this is that the property is being operated like a owner-operated business, and thus, self-employment, whereas we require at least a 2 year history in a line of work to consider such income otherwise. As for the appraisal, same guidelines apply; Appraiser must only provide long term (monthly/annual) rents in order to qualify the loan. The loan will be qualified using the *lesser* of the actual rents received (gross rents per rental history divided by 24 months) and monthly market rents.

DSCR (standard):

- Short term rental income (such as AirBNB/VRBO income): Monthly Gross Rents are determined by the lower of the 12-month average payout amount or market rent from the appraisal. The higher 12-month average payout amount may be used provided it is not greater than 125% of the estimated market rent from the appraisal.
- **Purchases:**
 - Use either the nightly, weekly, monthly, or seasonal market rent from the Comparable Rent Schedule Form from appraisal (as available per market) OR an AIRDNA report provided by the broker.
 - Subject property must in an area that is common for short term rentals.
 - 1.50x DSCR required
 - First time investor not allowed.
- **Refinances:**
 - Remittance statements from the renting entity covering the most recent 12-month period is required. The payout amount must be used for qualifying. Refer to the LTV Matrix for the minimum DSCR.

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Credit
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Q – The QB Guidelines require borrowers to have a minimum three (3) tradelines established for at least 12 months OR two (2) tradelines reported for at least 24 months. Do these tradelines need to be active?

A – No, they can be active, inactive, paid, or closed. As long as we have at least a 12-month reported history, that satisfies the 3-tradeline requirement.

Q – The borrower's credit report only reflects 2 tradelines reporting over 12 months, less than the minimum three (3) tradelines required in the guidelines. Are non-traditional or alternative tradelines accepted?

A – Yes. Non-traditional or alternative tradelines, such as rent, cell phone, utilities payments, etc. are acceptable and can be used to supplement the credit report, provided that all the following apply:

1. The account is in the borrower's name,
2. That it recurring and has been paid on-time for at least the last 12 months.

Any non-traditional tradelines used to meet the minimum 3-tradeline requirement, then not only is it necessary but must be verified with a credit supplement via the credit report provider. If borrower requires more than one alternative tradeline to meet the minimum requirement, one of the alternative tradelines must be housing/rent.

Q – Borrower's credit report evidences Joint and Authorized User accounts. Can they be counted towards the minimum 3-tradeline requirement?

A – Joint tradelines are acceptable and can be counted towards the 3-tradeline requirement because both parties are obligated to pay. Authorized User tradelines are NOT acceptable, and cannot be counted towards the minimum 3-tradeline requirement; authorized users are able to make charges on an account, but are not liable or obligated to make the payments. Therefore, they are not indicative reflections of the borrower's ability to repay (unless proof can be provided that they indeed have been making the payments for the last 12 months).

Q - Borrower's credit report evidences deferred (student) loans. Do these count towards the minimum tradeline requirements?

A - Typically no; Guidelines require at least a 12-month history of payments made. If payments are deferred, then most likely the borrower has not made any payments on the loan, and would therefore not meet the requirements. Deferred loans can only be counted if borrower provides proof of at least 12 months' payment made.

Q – A loan was submitted with 2 applications. The Borrower 1 has over 10 tradelines reported. The Co-Borrower has only 1 tradeline and does not meet the minimum 3-tradeline requirement. Is this acceptable?

A – No. Guidelines require each borrower to have at least 3 established tradelines with reported histories over 12 months.

Q – Can joint borrowers go on one loan application even if they are not married?

A – We can allow joint applicants for any two individuals who share *comingled* assets, credit, and/or REO in alignment with agency and industry standards. If separate financial information exists, then each borrower must complete their own application with their own run credit report.

Q – A joint loan application was submitted. The credit report evidences only 3 tradelines reported over 12 months: one in Borrower 1's name, one in Borrower 2's name, and they both share a third joint tradeline. Is this acceptable?

A – Yes. Permitted joint borrowers (above) are considered one application and their credit histories may be combined in order to meet the minimum 3-tradeline requirement. The above is not applicable to Borrowers with separate applications.

Q – The borrower's credit report evidences employers that were not disclosed on the application. Do we require an explanation for these jobs?

A – If the subject loan is a Lite Doc that requires Employment verification (QB-OO-LD, QB-OO-BS, and QB-INV-LD), then an explanation letter from the borrower is required if:

- The employment/job is reporting from less than 5 years ago, AND/OR
- The person's title or company name suggests borrower may have at ownership interest in the business (ex: Owner, President, CEO, Principal, etc.)

If the loan does not require Employment verification (QB-OO-AU, QB-INV-AU, and DSCR+), then nothing will be required.

Q –Borrower has been renting at his current residence over 3 years. Is a Verification of Rent (VOR) necessary?

A – It depends; if borrower has sufficient credit history (many current/prior tradelines, long history of credit, good repayment history, good mortgage repayment history) then a VOR is not required. If borrower has thin credit (few tradelines, barely over a year old, many lates, etc.) then it may be conditioned to mitigate any weaknesses. If borrower requires proof of timely rent payments to meet the minimum 3-tradeline requirement, then not only is it necessary but must be verified with a credit supplement via the credit report provider.

That being said, when the subject loan is a second home or investment property and the borrower is currently renting, a VOR should be requested to verify that the rent payment stated on the application is correct, because this will impact the DTI.

Q – Are verifications of HOA maintenance payments required?

A – If the subject is a condo/coop/PUD, confirmation of the HOA monthly maintenance fee and verification of timely payments will be required. On other real estate owned (not the subject), it will not be required.

Q –Borrower has mortgages that do not appear on their credit report. What documentation is required?

A – See below for each scenario:

- If on Subject property or Other REO; institutional lender: Borrower to provide copy of most recent mortgage statement. If no mortgage statements are produced, provide copy of note and mortgage.
- If on the Subject property; Private Lender: Borrower to provide copy of note, mortgage, and proof of timely payments for the last 12 months via cancelled checks, bank statements, or account history printout for the current mortgage.
- If on Other REO; private lender: Borrower to provide copy of note and mortgage.
- If on Other REO; private lender THAT WILL BE PAID OFF WITH SUBJECT LOAN: Borrower to provide copy of note, mortgage, and proof of timely payments for the last 12 months via cancelled checks, bank statements, or account history printout for the current mortgage.

In addition to the borrower-provided documentation above, Loan Processor will request Verification of Mortgage (VOM) for all scenarios as well.

Q – Do we need to list any of the borrower’s other real estate owned on the 1003? If so, what documentation is required for these properties ?

A - All real estate owned (REO) that is: A) owned in borrower's personal name and/or 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 the Schedule of Real Estate Owned on the 1003 application. If these properties are financed, they must be linked to at the appropriate mortgages from the Liabilities section on p.2 of the 1003.

If borrower owns real estate that is in the name of an entity (Corp/Inc/LLC) where either,

- A) there is no mortgage on the property, or
 - B) the mortgage is under the entity (i.e., does NOT appear on borrower’s personal credit report),
- then property does **NOT** need to be disclosed. In the most basic terms, if the property is in an entity and the credit report does not evidence a mortgage for that property, you don’t need to list it anywhere; not in the REO section, nor the Employment section. The property/entity will not be disclosed and disregarded.

On the DTI-qualifying products, borrower must fully complete all sections of the Schedule of Real Estate Owned on the 1003 are completed, namely:

- 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 a signed and dated letter on accounting firm’s letterhead 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, and can be accomplished via either:

- public records (ex: ACRIS)
- fraud report (through encompass)
- insurance binder evidencing no mortgagee, or
- lien search

Q – Borrower is purchasing an investment property. The borrower currently owns and resides in a property owned under an LLC, where there is either no mortgage or the mortgage is the name of the LLC. How will this be treated ?

A - Whether the borrower's primary residence is owned in their personal name or in the name of an entity that they have ownership in, the borrower's primary housing debt (PITIA) must always be considered in the DTI and evidenced on p.2 of the application, Present Monthly Housing Expenses. Under these circumstances, the property must also be listed on the Schedule of Real Estate Owned on the 1003 application as well.

Q – Borrower is applying for a DSCR loan. Do we need to list any of the borrower’s other real estate owned on the 1003? If so, what documentation is required for these properties since DTI will not be calculated?

A - All real estate owned (REO) that is:

- A) owned in the borrower’s personal name, and/or
 - B) borrower is personally liable on the mortgage and appears on the borrower’s personal credit report,
- then the property must be listed on the Schedule of Real Estate Owned on the 1003. If these properties are financed, they must be linked to at the appropriate mortgages from the Liabilities section on the 1003. Although the monthly payment amounts and loan balances are not factored into the underwriting, **we are still required to verify no mortgage lates in the past 12 months** (guidelines).

Verification of properties owned free-and-clear **is** required, and can be accomplished via either:

- public records (ex: ACRIS)
- fraud report (through encompass)
- insurance binder evidencing no mortgagee, or
- lien search

In the event there **is** a mortgage in the borrower's personal name that does **not** appear on the credit report, then we need a credit supplement or Verification of Mortgage (VOM) to confirm timely payments for at least the last 12 months.

To reiterate, the payment amounts are inconsequential to the loan approval. However, we still need to verify which properties are mortgaged, and that the payments have been paid on time.

Q - File required a credit supplement, however the vendor cannot put the report in Quontic's name. Will Quontic accept the credit supplement obtained by the broker?

A - Yes, credit supplements in the broker's name will be accepted as long as the credit supplement is completed by the approved credit vendor used to pull the initial credit report.

Q - Borrowers wish to purchase a new primary residence but already own their current residence. Would we be able to do the loan on the new purchase?

A - Yes, given acceptable motivation. Borrowers to provide a satisfactory motivation letter confirming their intent to move into subject property as primary residence. Borrowers to also state what they intend to do with the vacating residence (sell, rent, etc.). If they will be converting their vacating property to a rental, and are using rental income to qualify the loan, borrowers to provide fully executed proposed lease for incoming tenants, including copies of cancelled first month's rent and security deposit checks, and proof of deposit into borrowers' personal bank account. If we do not require rental income to offset the housing payment, then just the letter is acceptable. Entire current housing debt will be included in DTI.

Q - Borrower's credit report evidences an AMEX account with the same balance and payment. What do we do to qualify?

A - Borrower will need to provide copy of AMEX statement evidencing the pay-in-full and pay-over-time portions. The Pay-In-Full Balance is to be deducted from the liquid assets. The Pay-Over-Time Balance and minimum payment are to be included in the liabilities as revolving debt (like a credit card would). If the statement evidences that this is indeed a 30-day account and balance & payment are the same figure, and borrower has sufficient funds to cover the balance, then the debt may be omitted.

Q - Borrower's credit report evidences a collection account. Does this need to be paid off prior to (or at) closing?

A - As per FNMA, depends on the transaction and property type:

- For One-Unit Primary Residence properties (including Condos and Coops), borrowers are not required to pay off collections or non-mortgage charge-offs, regardless of the amount.
- For 2-4 Unit Owner-Occupied and Second Home properties, collections and non-mortgage charge-offs totaling more than \$5,000 must be paid in full prior to or at closing.
- For Investment properties (all property types), individual collection and non-mortgage charge-off accounts equal to or greater than \$250 and accounts that total more than \$1,000 must be paid in full prior to or at closing.

However, even though it may not be required for the collection / non-mortgage charge-off to be paid off to close, Borrower must still evidence that they have sufficient funds in their qualifying assets to cover the account balance. All other accounts that are reported past due (not collection accounts) must be brought current.

Q - Borrower's credit report evidences accounts in dispute. Do these accounts need to be taken out of dispute? If so, would we require a credit rescoring or just a credit supplement removing the dispute?

A - Depends on if the disputed account is reporting late payments. Background: If there are tradelines that are disputed, the credit bureaus are omitting the derogatory history of an account and thus are **not** factoring history into the FICO scores. Now for FNMA manual underwriting that is not an issue, but for QB (all loans underwritten manually) it **is** an issue, since we use the FICO to:

1. Determine if the loan is approvable, and
2. Pricing.

Since a FICO score necessary, and the FICO on the report is not accurately reflective/calculated, **we therefore CANNOT accept credit reports with disputed accounts**. Thus, the disputes must be removed or resolved, with a credit rescoring or new credit report to reflect the true FICO scores. Borrower must either provide proof that the late payments are reported erroneously (cancelled checks, bank statements, etc.) or a letter to remove the dispute in the format below:

DATE
BORROWER NAME
ADDRESS
SSN
ACCOUNT NAME
ACCOUNT NUMBER

TO WHOM IT MAY CONCERN:

I [INSERT BORROWER'S NAME] am no longer disputing this account and agree with the status as reported. Please remove the consumer dispute remark.

BORROWER'S SIGNATURE

Please note that disputes do not need to be removed and rescoring are not required when:

- There is a dispute but no lates are reported (as in, they might be disputing a charge they didn't make or an APR change, but they still paid their payment on time, which is what we care about), or
- If they are disputing a medical collection.

Q - Borrower only has a Work Permit / Employment Authorization. Would we be able to lend to this borrower under the QB products? If so, what documentation is required?

A - We follow FNMA's guidance when it comes to Non-US Citizen / Non-Permanent Resident Borrowers, and they provide a nice overview of the eligibility requirements here ([Non-Citizen Borrower Eligibility \(from FNMA\)](#)). However, for QB purposes we have an additional overlay, where approval of such borrowers would be subject to their **Employment Authorization Code and Eligibility** ([Employment Authorization Codes and Eligibility \(10-2021\)](#)). Therefore, all Non-US Citizen / Non-Permanent Resident Borrowers with Work Permits or Employment Authorizations will be qualified as follows:

- Provide Current EAD Card (must be valid and unexpired at time of closing)

- Provide Prior EAD Card (in order to evidence at least 2 full years of legal employment authorization)
- Consult the **Employment Authorization Codes and Eligibility** above. Under the '**Program Eligibility**' column, if the **EAD Category** evidenced on the *latest* card is classified as '**Eligible**', the borrower will be deemed **Eligible** for the QB Products (not including Foreign National). **No additional documentation will be required other than the two (2) EAD cards** (unless the EAD category requires a US Citizen to also be on the loan).
- **Ineligible** categories are not eligible for the QB products. No other documentation can be provided to change that determination.

Q – Borrower has Employment Authorization under one of the approved categories. Prior to the EAD expiring, borrower applied for an extension but has not yet received an updated card or notice due to backlogs with the USCIS. Can we lend to such a borrower?

A –Yes. USCIS took official action in response to the delays in processing EAD renewals. Please see the links below:

1. <https://www.uscis.gov/newsroom/news-releases/uscis-increases-automatic-extension-period-of-work-permits-for-certain-applicants>
2. <https://www.uscis.gov/eadautoextend>
3. <https://www.federalregister.gov/documents/2022/05/04/2022-09539/temporary-increase-of-the-automatic-extension-period-of-employment-authorization-and-documentation>

Highlight:

Normally, DHS regulations provide for an automatic extension period of up to 180 days from the expiration date stated on the EAD. However, DHS has published a temporary final rule increasing the extension period. Effective May 4, 2022, DHS is temporarily increasing the extension period and providing up to 360 days of additional automatic extension time, for a total of up to 540 days, to eligible renewal applicants. The automatic extension time is counted from the expiration date of the employment authorization and/or EAD. This temporary increase is available to eligible renewal applicants with pending applications if you filed your Form I-765 renewal application either:

- Before May 4, 2022, and your 180-day automatic extension has since expired;
- Before May 4, 2022, and your 180-day automatic extension has not yet expired; or
- Between May 4, 2022 and Oct. 26, 2023, inclusive of these dates.

Based on the above, if the borrower can document they applied for the extension prior to the expiration date on their card, then the new expiration date is extended per the terms above. If borrower cannot document they applied for the extension prior to the expiration date on their card, then the above does not apply and borrower would be ineligible for the QB products.

Q – Borrower is a Non-US Citizen / Non-Permanent Resident but does not have a Work Permit or Employment Authorization. Rather, they are in the country legally with a VISA. Is this borrower considered a Foreign National? Would we be able to lend to this borrower under the QB products? If so, what documentation is required?

A – First we have to determine where the borrower currently lives and works, and what kind of loan borrower is applying for. If the borrower does not live and work in the US, then they would be considered a Foreign National. Foreign Nationals are not eligible for owner-occupied properties; we only allow investment properties for Foreign National. Please consult the latest Foreign National Guidelines on Portal for more information.

If Borrower lives and works in the US, then we follow FNMA's guidance when it comes to Non-US Citizen / Non-Permanent Resident Borrowers, and they provide a nice overview of the eligibility requirements here ([Non-Citizen Borrower Eligibility \(from FNMA\)](#)). However, for QB purposes we have an additional overlay, where approval of such borrowers would be subject to their **Visa Classification and Eligibility**. To verify if borrower's classification is eligible, consult the [VISA Classification and Eligibility \(05-2021\)](#) document here. If eligible, the following documentation will be required:

- Provide Current Visa (must be valid and unexpired at time of closing)
- If current Visa was issued less than 2 years ago from the application date, provide Prior Visa (in order to evidence at least 2 full years of legal employment)
- Please review '**Program Eligibility**' and '**Employment**' columns for additional requirements, if applicable.
- No exceptions to the above or ineligible classifications will be granted.

Q – Are there any restriction to the number of properties a borrower may own?

A – No.

Q - How do we handle loans in forbearance?

A - We follow the same rules that apply FNMA, which can be summarized here: [Conventional Agency loans](#) [Mortgages in Deferment or Forbearance](#)

Please note this applies to ALL mortgages with the Borrower, not just the subject property.

Q - We are taking an application for a Foreign National who does not have a social security number or ITIN. What do we put in that field in encompass and on our 1003?

A - 111-11-111. By using this number, it will allow you to run reports, fraud, etc. and bypass any alerts or milestone hard-stops.

Q - Borrower's credit report evidences deferred student loans. How are these qualified for QB loans (DTI-qualified loan)?

A - We follow FNMA's guidance in regards to how student loans are qualified, namely:

- If a monthly student loan payment is provided on the credit report, the lender may use that amount for qualifying purposes. If the credit report does not reflect the correct monthly payment, the lender may use the monthly payment that is on the student loan documentation (the most recent student loan statement) to qualify the borrower. If the credit report does not provide a monthly payment for the student loan, or if the credit report shows \$0 as the monthly payment, the lender must determine the qualifying monthly payment using one of the options below.
 - If the borrower is on an income-driven payment plan, the lender may obtain student loan documentation to verify the actual monthly payment is \$0. The lender may then qualify the borrower with a \$0 payment.
 - For deferred loans or loans in forbearance, the lender may calculate
 - a payment equal to 1% of the outstanding student loan balance (even if this amount is lower than the actual fully amortizing payment), or
 - a fully amortizing payment using the documented loan repayment terms.

Q - Who are considered "ITIN Borrowers"?

A - The term "ITIN Borrower" will encompass all borrowers who currently live and work in the US that would be considered as 'undocumented' by today's vernacular. These are borrowers who are not currently US Citizens, Permanent Residents, or those with expired eligible EADs / VISAs (see EAD and VISA eligibility matrices for more details). Along with their government issued photo ID, "ITIN" borrowers must provide a copy of their ITIN card or letter from the IRS confirming their Tax ID as their second form of identification. See Income & Employment FAQs for documentation requirements.

ITIN Borrowers are subject to the following overlays:

- Can ONLY apply for **Owner-Occupied Lite Doc** (i.e., ITINs are ineligible for Asset Utilization, or any Investor programs).
- Max \$1,000,000 Loan Amount on all transaction types
- LTVs > 75% Require Minimum 680 FICO
- Cash-Out: Max 75% LTV
- No Coops

Q – Credit report evidences late payments from months ago. How far back does the late need to be to require an explanation?

A - We require an explanation for any late payments in the last 24 months of the date of the credit report. Any late payments over 24 months from the date of the credit report do not need to be explained. Please note significant delinquencies such as charges offs, collections, bankruptcies, foreclosures, etc. always require explanations regardless of how old they are.

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Income & Employment
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Q – Borrower is self-employed. What does the accountant need to provide on their letterhead?

A - The accountant/tax preparer must confirm and verify at least the following:

- Borrower's name
- length of relationship with borrower
- Name of business
- Position at the business
- Inception date / years they've held this position
- Percentage of ownership
- If business funds will be used for the down payment, closing costs, and/or reserves, preparer must confirm access to funds and if withdrawals would have any negative impact on the business (if applicable)

If the business address and phone number cannot be verified with 3rd party or online searches, the accountant/tax preparer must include this information in the letter.

Q – Borrower is applying for an Asset Utilization loan (QB-OO-AU or QB-INV-AU). What needs to be completed in the Employment section of the 1003?

A - Nothing. This section is to be left blank. However, the income section still needs to be completed. See guidelines for income requirements and documentation.

Q – Borrower is applying for an Investor DSCR loan. What needs to be completed in the Employment section of the 1003?

A - That would depend on the DSCR Program:

- DSCR (standard) - Employment needs to be stated on 1003. However, employment will not be verified.
- DSCR Plus - Employment section to be left blank.

Q – Can we accept a VOE that was sent by the broker to the employer?

A - No, all verifications must be requested and received by Quontic.

Q – Borrower is retired. What documentation is required to verify Social Security or Pension income?

A - Borrower to provide Award Letter evidencing the social security and pension income. For qualifying purposes, Social security and pension income cannot be grossed up by 25%; income will be taken at face value. Please note this will only apply to Lite Doc loans (QB-OO-LD, QB-OO-BS, QB-OO-AU, and QB-INV).

Q – Borrower has been self-employed for 1.5 years. Prior to this he was working for a company in the same line of work. Is this acceptable?

A - Yes; guidelines state the borrower must be self-employed *OR* in the business at least 2 years. If the current and prior jobs are in the same line of work, the employment history would be acceptable. However, borrower must be self-employed at last 1 year in order to provide a complete 12-month Profit and Loss statement.

Q – Borrower has a second job, but we do not require income from that job to qualify. Does it need to be on the application?

A - Yes. Even though we may not require the income from the second job to qualify, all employments must be listed on the application. If the secondary employment is as a wage-earner (i.e. not self-employed), no verification of employment or income will be required (since working this type of job would not be something that could be considered a potential income-loss). If the secondary job is self-employment, then we will require a CPA/ accountant's letter verifying borrower's self-employment, ownership percentage, and date of inception of the business/Corp/LLC(s)*. In addition, with self-employed borrowers, there IS a potential for income-loss. Therefore, if borrower owns any other businesses, but we do not require income from these companies to qualify (i.e., no P&L to be obtained), we will require signed letter from the borrower's accountant verifying the businesses have not been operating at a loss for the past 12 months*.

*** NOTE:** there are cases where the accountant's letter and letter confirming no losses for the last 12 months can be waived. Example: borrower's second job is as an Uber Driver. Borrower would be considered an independent contractor and works as often as he/she wish. We can verify their employment as a driver with their TLC license, so there is really no need to request an accountant's letter, especially since we're not using income to qualify. And since the borrower would only continue to drive for Uber to make money and not lose money, the potential for income-loss is minimal. Therefore, the letter confirming no losses for the past 12 months would not be required.

Q – Borrower is a US Citizen / Permanent Resident but receives income from their business(es) overseas. Can we lend to such a borrower?

A - Yes; There are instances where borrowers are owners or principals of businesses overseas and receive passive income from these companies. In addition to the standard self-employment guidelines and requirements, the following documents are required to verify income and employment (for

Owner-Occupied DTI / Investor DTI loans):

- Letter from accountant on firm's letterhead in country that the business exists verifying:
 - Name of business
 - Nature of business
 - Location & phone number of business (if we cannot source it ourselves, like with a google search)
 - Date of inception
 - Borrower's position/title at the company
 - Borrower's percentage of ownership
 - If foreign document is not written in English, needs to be translated by professional company.
- License/certification for accountant in the origin country
- Letter from United States accountant on letterhead verifying that they file taxes for the borrower in the US, and verify the same as above (or as much as they can); the Foreign Income Tax Return form 2555 may not state borrower's ownership percentage, nature of business, phone number, etc., but AT MINIMUM would tell us where borrower has been receiving foreign income from and for how long.
- In order to use foreign income to qualify, the US Accountant must prepare the 12-month Profit and Loss Statement. (Please note that most US Accountants only receive and report the Net Income of the borrower on the 2555 Form. If US accountant does not have knowledge of the company's income and expenses, accountant may not be able to complete and provide the P&L statement.

Q – Borrower owns real estate under an entity. Does this entity need to be listed in the Employment section of the 1003? How are we qualifying the property?

A - On the DTI-qualifying products, the entity should be listed in the borrower's Employment section of the 1003. How we qualify depends on the following:

1) If borrower owns real estate under an entity, **AND** the mortgage on said property is evidenced on borrower's credit report, the property must still be listed on the Schedule of Real Estate Owned. All sections of the Schedule of Real Estate Owned on the 1003 are completed, namely:

- 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.)

As of 04/04/2022, 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 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, and can be accomplished via either:

- public records (ex: ACRIS)
- fraud report (through encompass)
- insurance binder evidencing no mortgagee, or
- lien search

2) If borrower owns real estate that is in the name of an entity (Corp/Inc/LLC) where either: A) there is no mortgage on the property, or B) the mortgage is under the entity (i.e., does NOT appear on borrower's personal credit report), and **requires** the rental income form this property to qualify, then following the guidelines under #1 above.

3) If borrower owns real estate that is in the name of an entity (Corp/Inc/LLC) where either: A) there is no mortgage on the property, or B) the mortgage is under the entity (i.e., does NOT appear on borrower's personal credit report), and **DOES NOT** require the rental income form this property to qualify, then property does **NOT** need to be disclosed.

Q – Borrower owns real estate under an entity, but entity was formed less than a year ago / property has been owned less than a year. Can we still use a Profit & Loss Statement to qualify?

A - No. Since we are now treating real estate owned under an entity where there is no mortgage *or* the mortgage is under the entity, as a **business**, the self-employment rules apply, namely that a **12**-month P&L will be required to qualify. Since the entity was formed / property was owned less than a year, income and expense for a 12-month period cannot be provided.

Q – Borrower owns real estate under an entity, but entity was formed less than two (2) year ago / property has been owned less than two (2) years. Can we still use a Profit & Loss Statement to qualify?

A - That depends; Since we are now treating real estate owned under an entity where there is no mortgage *or* the mortgage is under the entity, as a **business**, the self-employment rules apply, namely that the borrower "*must be self-employed for at least 1 year and in the same line of business for at least 2 years*". If borrower does not have at least two (2) years of real estate ownership or management experience, cannot use the income from this 'business' to qualify.

Q – Borrower is self-employed, however their line of work does not require the business to be incorporated or does not require registrations or licensing to perform that kind of work. The business or profession cannot be independently verified via the internet, google, white pages, etc. What documentation can be provided to verify employment?

A - For borrowers who are unincorporated and/or do not need licenses to operate their business, and otherwise cannot be searched or verified independently by other accessible means, we will request the top portions of their Schedule C's for the last 2+ years that would evidence their business or profession (much like we do for the 1040s for CDFI). This should give us sufficient comfort that the borrower is in fact in the line of business they claim to be, and for at least a 2 year period of time, which will satisfy the time period requirements. Examples of such borrowers are 1099-workers, "gig" workers, construction workers, contractors, handymen, painters, gardeners, etc.

Please note this is in addition to the typical self-employment documentation requirements, namely the accountant's letter and the 12-month P&L.

Q – Borrower is self-employed, however we cannot independently verify the business address and/or phone number (via internet, google, white pages, etc.). What other options do we have to verify the business address/phone number?

A - Sometimes a business has no physical address or borrower operates the business through their home. Thus, separate addresses and/or phone numbers may not be required. In such cases, if we cannot independently verify the information, we will ask the accountant to provide and confirm that information in the accountant letter.

Please note that this is **NOT** a substitute for verifying that the business exists or that it is registered. If the business is a corporation or LLC, then it must at least be registered and this can be verified via corporate searches by state. If borrower is unincorporated or is in a line of business that

does not require registrations or licensing (i.e. construction workers, contractors, handymen, painters, gardeners, 1099 or "gig" workers, etc.), then you still require the top portions of their Schedule C's for the last 2+ years that would evidence their business or profession.

Q – What income and employment documentation is required for an ITIN Borrower?

A - The term "ITIN Borrower" will encompass all borrowers who currently live and work in the US that would be considered as 'undocumented' by today's vernacular. These are borrowers who are not currently US Citizens, Permanent Residents, or those with expired eligible EADs / VISAs (see EAD and VISA eligibility matrices for more details). See Credit FAQs for more information.

- **Wage-earning** ITINs must provide **top portions of the 1040s for the last 2 years**. As wage-earners, the usual documentation requirements apply, which would be the Quontic VOE completed by their employer.
- **Self-employed** ITINs must provide the **top portions of their Schedule C's for the last 2 years**, evidencing their business or profession (no income shown). This is much like the guidelines we have for verifying employment for borrowers who do not require to be incorporated and/or do not need licenses to operate their business. As self-employed borrowers, the usual documentation requirements apply, which would be the accountant's letter and 12-month P&L.
 - If they have a registered business and file a separate tax return, then:
 - For 1120 provide the tops of the 1120 TRs and the pages that evidence owners of the business for the last 2 years
 - For 1120S provide K1s for the last 2 years with the income crossed out

As a reminder, ITIN Borrowers are subject to the following overlays:

- Can ONLY apply for **Owner-Occupied Lite Doc** (i.e., ITINs are ineligible for Asset Utilization, or any Investor programs).
- Max \$1,000,000 Loan Amount on all transaction types
- LTVs > 75% Require Minimum 680 FICO
- Cash-Out: Max 75% LTV
- No Coops

Assets

Q – Can borrower use gift funds to meet the reserve requirements?

A – As of 11/30/2022, reserves must come from the borrower. Gift funds can no longer be applied towards the reserve requirements on any loan program.

Q – Can borrower use the proceeds from a cash-out refinance to meet the reserve requirements?

A – Refer to QB Guidelines as each loan program has different criteria for if cashout proceeds may be applied to reserve requirements.

Q – On a cash-out refinance where borrowers will use loan proceeds to cover the reserves requirement, will we still require a bank statement?

A – Yes, guidelines still require that borrowers provide 1 month's bank account statement for all loans, regardless of if we use the funds in the account to qualify the loan.

Q – Are Gift of Equities allowed on non-arms-length purchases?

A – Yes. The Gift of Equity must be evidenced on the contract of sale. A fully executed gift letter for the Gift of Equity amount from the sellers per the Contract of Sale must be provided prior to closing. The Gift of Equity is NOT to be included in the qualifying assets; rather, the gift of equity is to be listed on p.3 Details of Transaction Line L. Note: The Max Gift of Equity cannot exceed the Purchase Price minus the Loan Amount. The Gift of Equity cannot be applied to closing costs (that would be considered a seller's concession or seller's credit).

Q – Borrower is applying under the QB-INV program. Borrower owns other real estate. How do we calculate the reserve requirement?

A – Per the QB-INV guidelines, borrower requires:

- minimum reserve requirement on the Subject Property based on Loan Amount:
 - | Loan Amount | Minimum Reserve Requirement |
|-------------------------|-----------------------------|
| \$500,000 and below | 3 months PITIA |
| \$500,001 - \$1,500,000 | 6 months PITIA |
| above \$1,500,000 | 12 months PITIA |
- Borrowers who own other financed investment properties are required to evidence an additional 2 months of PITI(A) reserves for each of those properties.

Ex: Borrower purchasing an investment property A. Proposed PITI on subject is \$5,000/m. Borrower owns their primary residence B, \$2,000/m PITI, and 3 other investment properties:

- Investment Prop C has mortgage with PITI of \$3,000/m
- Investment Prop D has mortgage with PITI of \$4,000/m
- Investment Prop E is owned free and clear, taxes and insurance total \$1,000/m.

Based on the above, the minimum post-closing liquidity required to complete the transaction is \$29,000:

Property	Payment	# months required	Total	
Subject A	5,000	3	15,000	
Primary B	2,000	0	-	-> no additional reserves needed on primaries; only financed investment
Investment C	3,000	2	6,000	
Investment D	4,000	2	8,000	
Investment E	1,000	0	-	-> property has no mortgage, thus not financed. Therefore no additional reserves required
			29,000	

Q – Borrower is applying under the QB-INV program. Borrower owns another investment property, however the mortgage is only in the other co-owner's name (our borrower is not liable on the payment). Do we need to evidence additional reserves for this

property?

A – Yes. The QB-INV guidelines state "*Borrowers who own other financed investment properties are required to evidence an additional 2 months of PITI(A) reserves for each of those properties*". The guidelines do not differentiate on whether the borrower is *liable* on the payment; just if they a) own the property, and b) if the property is financed. Therefore, the reserve requirements still apply. HOWEVER, the payment does not need to be considered in the DTI, since borrower is not liable. Only the Real Estate Taxes and Insurance would be included as the housing payment.

Q – What percentage of retirement or investment funds can be used to qualify a loan?

A – For reserves purposes, we can use 100% of the vested funds in retirement and investment accounts. If investment or retirement funds will be used to close the loan, borrower will need to provide proof of liquidation of the funds needed to close and copy of the liquid bank account statement evidencing the deposit.

Q – Can we use business bank statements to close the loan or for reserves?

A – Yes. Business bank statements are acceptable to be used to either close the transaction or for reserve purposes. The CPA/Accountant must verify in their accountant's letter that the borrower has access to the funds for personal use, and if any withdrawals would have an adverse effect or impact on the business. If the business is not 100% owned by the borrower (i.e., there are multiple owners of the business), we require a joint access letter from the other owner(s) confirming borrower has full access to the funds in the business account(s). Borrower is not required to transfer the funds from the business account to their personal bank account in order for the funds to be counted in the verified assets.

Q – Deposits on Refinances: Borrower provided their personal bank accounts to close the loan / for reserves. The bank statement however evidences cumulative deposits over \$10,000. Do we need to source all these deposits?

A – We will follow FNMA guidelines, which state that 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 rules apply.

What this means: if funds have been deposited into the borrower's account for reserve purposes only, then you do not need to source the money. The only thing that will be required is a signed letter from the borrower stating the funds deposited have not been borrowed. If borrower does require funds to pay down the loan, then any large deposits must be sourced under the guidelines.

Q – Deposits: Borrower provided their personal bank accounts to close the loan / for reserves. The bank statement however evidences cumulative deposits over \$10,000. Do we need to source all these deposits?

A – The guidelines are stated as follows:

- *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.*

What this means: Previously, any deposits, including those that have been sourced, where the total exceeds \$10,000, any of the funds that are could not be documented must be discounted from the qualifying assets. Sourced and documented deposits (such as gifts, rent checks, etc.) are **not** included in the \$10,000 limit, meaning Borrowers are given up to a \$10,000 cushion in petty cash /undocumented / unsourced deposits in a single transaction period. However, once that amount exceeds \$10,000, the total remaining unsourced funds must be deducted from the qualifying assets.

Q – Deposits on Purchases: Can we give them credit up to \$10,000 of the unsourced deposits and deduct the remaining from the qualifying assets?

A – No. If the petty cash /undocumented / unsourced deposits in a single transaction period exceeds the \$10,000 limit, the funds must be deducted from the qualifying assets.

Q – Deposits on Purchases: If we source enough deposits so that the remaining unsourced deposits add up to less than \$10,000, can we still give them credit for those unsourced deposits?

A – Yes.

Q – Borrower is using business bank account to close the loan / for reserves. The bank statement however evidences cumulative deposits over \$10,000. Do we need to source these deposits?

A – If the deposits are consistent and are typical for the borrower's line of work, they do not need to be sourced or documented. However, if there are unusual, inconsistent, or one-time large deposits that are atypical, the underwriter may request for the deposit(s) to be documented, sourced, and explained. Any such unverifiable / unacceptable deposits will be deducted from qualifying assets. Any cumulative deposits totaling less than \$10,000 do not need to be explained or documented, and do not need to be deducted from qualifying assets.

Q – Can we accept a Verification of Deposit (VOD) in lieu of bank statements?

A – No. The VOD is only used for verification purposes. Guidelines require an actual bank statement with at least a 30-day account history be provided with every loan.

Q – Processor is unable to receive a Verification of Deposit (VOD). What can we accept in lieu of the VOD?

A – Borrower will need to receive a stamped and signed account history or printout from the bank verifying the account is valid and has sufficient funds to close.

Q - Do we require a VOD on a bank account if we are doing a cash-out refinance where the proceeds are sufficient to cover the reserve requirement?

A - If the cash-out proceeds are enough to cover reserves, and we do not require any verification of funds in the bank account statement provided, then the VOD requirement may be waived. However, please note that regardless of if we need funds to close, a bank statement is always required 100% of the time on every QB loan product.

Q - Do we require a VOD on investment/retirement accounts?

A - Typically no; if investment or retirement accounts are strictly used for reserve purposes only, then the VOD requirement can be waived. If the funds from the account are required for closing costs, then the funds must be liquidated or transferred to the borrower's checking or savings account. Liquid accounts require VODs.

Q - Borrower has an investment bank statement (ex: Morgan Stanley, Fidelity, etc.) that includes cash account(s). Do the funds in the cash accounts need to be liquidated in order to be applied to the funds to close?

A - No. It is not uncommon for traditional 'investment' bank statement to also have cash account along with the regular equity accounts. The funds in the cash accounts are already liquid and readily available to be withdrawn without penalty. In fact, it's possible that the borrower can even write

checks through these accounts. therefore, they can be viewed in the same way checking or savings accounts are.

Q – Are 1031-exchanges acceptable?

A – Yes, 1031-exchanges are acceptable for Investment loans only; the purpose of the 1031-exchange is to use the proceeds of the sale of one investment property to purchase another investment property in order to save the borrower on capital gains taxes. 1031-exchanges cannot be applied for the purpose of purchasing a primary residence, unless the dwelling is mostly non-owner occupant (ex: purchasing a 3-family primary where 1 unit is owner-occupied and the other 2 are tenant-occupied). The documentation required for 1031-Exchanges is as follows:

- Provide fully executed Assignment of Replacement Property Purchase Agreement identifying the relinquished property and subject property being purchased for the 1031-Exchange
- Provide copy of HUD1/Settlement statement evidencing the sale of the relinquished property for the 1031-exchange, along with the checks/wires evidencing the transfer of sales proceeds to 1031-exchange Intermediary
- Provide copy of Intermediary 1031 Exchange Account Statement evidencing all transactions details and sufficient funds for closing subject property.

Q – Is it acceptable if the borrower wired the EMD / down payment? Do they need to provide the bank statement evidencing the withdrawal?

A – Yes, wires are acceptable and the bank statement evidencing the withdrawal is NOT required, as long as the wire confirmations/receipts include the following information:

- Sender's / Borrower's Individual Name
- Sending Bank's Name
- Sending Bank Account Number
- Amount sent / received
- Date of transaction
- Recipient's Information

If any of the information above is missing, the bank statement evidencing the withdrawal will be required. Down Payments given in the form of an official bank or certified check will still require sourcing via bank statement evidencing the withdrawal.

Q – Borrower is selling his current property and using the proceeds to purchase the subject. This is a simultaneous closing. Can we use the excess proceeds from the sale to cover the reserve requirements?

A – Yes. We will need the Closing Disclosure from the sale evidencing the net proceeds. The proceeds will be reduced by the funds to close for our subject transaction. The remainder of those funds may be used as reserves. No bank statement is needed to document these reserves, as we are able to source them with the CD.

Q – Borrower is receiving a gift for the down payment / closing costs. However, gift donor gave the gift directly to the attorney / title company / settlement agent. What do we need to document this?

A – If gift was not received by the borrower directly, then in lieu of the borrower's bank statement evidencing the receipt of the gift, we will require an escrow letter confirming the receipt of the funds and that they are being applied to the subject purchase. Please note that when gift funds are given in this manner, we must comply to both **Gifts AND Down Payment** guidelines, namely:

- if down payment was given in the form of an official Bank Check or Certified Check, provide a copy of the bank statement evidencing withdrawal." For any large deposits other than those clearly indicating that they came from a depository institution titled to the individual, the individual 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.

Q – Foreign National guidelines require borrowers to have all their funds to close plus reserves in the US prior to closing. Can FN open a bank account with Quontic to satisfy the condition?

A – As of 2/28/2024, Foreign National borrowers can now open a bank account with Quontic. Borrower must provide and submit the following information to operations@quonticbank.com:

1. A valid foreign passport with photograph issued by the borrower's country of origin/residence.
2. A valid United States Visa.
3. A valid Taxpayer Identification Number.
4. Verified that a signed W-8BEN form (<https://www.irs.gov/pub/irs-pdf/fw8ben.pdf>), which attests to each customer's foreign and US tax-exempt status is in the customer's loan file.
5. Proof of Source of Funds, such as recent paystubs, letter or reference from current bank, recent bank statements, business registration documents if self-employed.

Quontic does not permit customers that have applied for, but have not received, a taxpayer identification number to open accounts.

Q – What is the proper way to input the EMD and Seller Credit on the URLA so that it flows correctly to the CD?

A – The EMD should be listed on line M6 of the URLA so that it flows correctly to line L.01 on the CD p.3. The Sellers Credit should be listed on line M3 of the URLA so that it flows correctly to line L.05 on the CD p.3. Credits should not be free-formed as it will lead to discrepancies in calculating cash to close and inaccurate fees. In order open the different credit options, the 'Itemize Credit' check box next to 'TOTAL CREDITS' must be checked. See example below:

URLA:

TOTAL CREDITS		<input checked="" type="checkbox"/> Itemize Credits
L. Seller Credits (Seller-Paid Fees)	\$	
M. Other Credits	\$	56,536.00
M1. Total Closing Costs Paid by Lender and Other	\$	
Lender Credit (Lender-Paid Fees)	\$	
Broker Credit (Broker-Paid Fees)	\$	
Other Credit (Other-Paid Fees)	\$	
M2. Non Specific Lender Credit	\$	
M3. Non Specific Seller Credit	\$	10,000.00
M4. Total of Other Assets Applied to Loan	\$	
M5. MI Premium Refund	\$	
M6. Cash Deposit On Sales Contract	\$	46,536.00
M7. Seller Credit	\$	0.00
M8.	\$	0.00
M9.	\$	
M10.	\$	
M11. Closing Costs from Other Loans	\$	
N. TOTAL CREDITS (Total of L and M)	\$	56,536.00
CALCULATION		
TOTAL DUE FROM BORROWER(S) (Line H)		1,345,795.87
LESS TOTAL MORTGAGE LOANS (Line K) AND TOTAL CREDITS (Line N)	-	1,099,836.00
Cash From/To the Borrower (Line H minus Line K and Line N)		245,959.87
NOTE: This amount does not include reserves or other funds that may be required by the Lender to be verified.		

CD p.3:

L. Paid Already by or on Behalf of Borrower at Closing	Sub Total	1,099,836.00
01 Deposit	46,536.00	
02 Loan Amount	1,043,300.00	
03 Existing Loan(s) Assumed or Taken Subject to		
04		
05 Seller Credit	10,000.00	
Other Credits		
06		
07		
Adjustments		
08		
09		
10		
11		
Adjustments for Items Unpaid by Seller		
12 City/Town Taxes	//	to //
13 County Taxes	//	to //
14 Assessments	//	to //
15		
16		
17		
Calculation		
Total Due from Borrower at Closing (K)		1,345,795.87
Total Paid Already by or on Behalf of Borrower at Closing (L)	-	1,099,836.00
Cash From Borrower		245,959.87

General / Loan Scenarios / Misc

Q – What are the loan amount limits?

A – It will depend on the program type, loan purpose, FICO, and LTV. Generally, the minimum loan amount is \$100,000 and the maximum loan amount is up to \$3,000,000. Loan amounts must be in increments of \$50. If loan amount will be based on a desired LTV and turns out to be an odd number, the loan amount will in most cases be rounded down to the nearest \$50 increment.

Q – Can we do a loan under an LLC?

A – Yes. However, only Investment properties can be held under an entity name (Corp/Inc/LLC). The loan will be opened with the entity as the Borrower and the individual owning the entity as the Guarantor. All individuals with 25% or more ownership in the entity must guarantee the loan and provide an application. The Certification of Beneficial Owners of Legal Entities form must be signed and completed prior to closing. Owner-occupied and second home properties cannot be done in an LLC.

Q – What documentation is necessary for Corp/LLC loans?

A – The following documentation is required for Corp/LLC loans:

- IRS Letter evidencing 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)

- If Operating Agreement or Bylaws do not provide an ownership breakdown, a CPA/Accountant/Attorney letter confirming all members of the entity, their social security numbers, and each owners' percentage of ownership will be required.
- 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

Q – Borrower currently owns the subject property with another individual. The purpose of the loan is to buy-out the other individual and own property solely. Is the loan treated as a cash-out or rate/term? What documentation is required?

A – If the borrower has owned the property at least 12 months from the subject disbursement date, and borrower will not be paying off anything other than the current outstanding mortgage and other individual's equity portion of the property, then the transaction may be deemed as a rate/term. Borrower may not receive any proceeds from the refinance. Exception to the 12-month ownership requirement exist if the property was legally awarded to or inherited by the borrower. In all other scenarios, the loan will be treated as a cash-out.

We require a signed document / buy-out agreement from all parties confirming the removed individuals' compensation for their equity portion of the subject. Any compensation paid-out to a party must be listed on the application as a liability and marked as 'paid-off' at time of closing. The settlement agent will issue the funds to the appropriate parties directly from loan proceeds at closing. Copy of the new proposed deed must be provided prior to closing for underwriting review. The new deed will be executed and recorded at closing.

Q – Borrower currently owns his primary residence under a Corp/LLC. Can we refinance the loan as a primary residence?

A – Yes. However, the loan must be done under the borrower's personal name, and a deed change will be required at closing transferring ownership in the property from the Corp/LLC to the borrower's personal name. Borrower must provide the appropriate LLC/Corp documents (see above) to verify their ownership in the entity. In order to do a cash-out refinance using the appraised value, the entity must have owned the property at least 6 months, AND borrower must have been an owner of the entity at least 6 months. Copy of the new proposed deed must be provided prior to closing. If there are currently other members/owners of the LLC that are NOT evidenced on the new proposed deed, we require a signed document / buy-out agreement from all parties confirming the removed individuals' compensation for their equity portion of the subject (since the asset held under the LLC/Corp will now be removed). Any compensation paid-out to a party must be listed on the application as a liability and marked as 'paid-off' at time of closing. The settlement agent will issue the funds to the appropriate parties directly from loan proceeds at closing.

Q – Borrower bought a property using a purchase-money mortgage about 5 years ago. About 2 years ago, borrower got a HELOC / 2nd Mortgage on the property. Borrower is applying for a refinance and just wishes to pay off the 2 loans on the property (no cash to borrower at closing, not paying anything else off). Would this be considered a Rate/Term or Cash-Out refinance?

A – Rate/Term refinance. Per guidelines, if the purpose of the subject loan is to solely pay off and satisfy the existing loan(s) on the subject property, then we treat it as a rate/term refinance. Borrower cannot receive cash-back more than \$2,000 or 2% of the loan amount at closing, and cannot pay off any other debts through the loan proceeds for it to be deemed a rate/term refinance. Cash to borrower at closing that exceeds \$2,000 or 2% of the loan amount will be considered a Cash-Out refinance. If borrower wishes or is required to pay off other debts through the loan (including but not limited to: other loans, liens, backed real estate taxes, credit cards, judgements, collections, etc.), the transaction will be considered a Cash-Out Refinance.

Q – The subject property is currently owned in the name of Mr. Smith. There is an existing mortgage on the property, also in the name of Mr. Smith. Can we do a refinance loan under just Mrs. Smith's name only and add her title at closing?

A – It depends on the type of refinance;

- If the application is for a Rate/Term refinance, then YES; per the guidelines, there is no seasoning for rate/term refinances. Therefore, she can solely apply for a rate/term refinance, paying off the existing loan(s) on the property (even if they are not in her name), with her being added to title at closing. Copy of the new proposed deed must be provided prior to closing. All current owners must also be evidenced as owners on the new deed at closing. If any current owners are being removed, the transaction is ineligible as a rate/term refinance
- If the application is for a Cash-Out refinance, then NO; per guidelines, borrower must have owned the property at least 6 months to apply for a cash-out refinance.

Q – Can we do a rate/term refinance if there is a mortgage on the property but doesn't belong to our borrower?

A – Yes. As long as the purpose of the loan is only to pay-off the existing mortgages/liens on the property, even if our borrower is not on the mortgage/liable for the payments, this can be considered a rate/term refinance. Since the borrower was not obligated on the outstanding mortgages, verification of payment history is not applicable (i.e., we do not have to verify timely payments for the last 12 months). However, we must ensure that any mortgages/liens on the property are Current; since guidelines do not permit bailouts, loans cannot be deferred, in forbearance, or have an unpaid balance. Loan must be brought current prior to closing. Proceeds may not be used to pay off any unpaid balances. See FAQ for Covid-related forbearances/deferments.

Q – Can we do owner-occupied properties in the name of a Trust?

A – Yes. However, the property must be held in an Inter Vivos (Living) Revocable Trust. Irrevocable trusts are not permitted. We follow FNMA's guidance in regard to this topic (see [FNMA - Revocable Trust Guidelines & Signature Requirements](#)) At least one of the Settlers/Trustors who established the trust must be on the Loan/Note and used to qualify. Trustee(s) may also credit qualify for the loan, so long as they have the power to mortgage the security property for the purpose of securing a loan. All individual borrower(s) must sign the Note itself. The Title/Mortgage will be in the name of the Trust.

All trust formation documents need to be emailed to collateral@quonticbank.com for review. A Change of Circumstance (CoC) is required adding the Trust Attorney Review fee of \$250.

Q – How are Interest-Only Loans qualified?

A – Interest-Only ARM loans are qualified using the greater of the fully amortized Note Rate or the Fully-Indexed Rate (Index + Margin). Interest-Only Fixed loans are qualified using the fully amortized Note Rate.

Q – Is Subordinate Financing Allowed?

A – Subordinate financing is allowed, as long as CLTV and HCLTV are within guideline limits (LTV and HCLTV limits are identical). Loans will be priced at the loan's HCLTV. Please note, however, the subordinate lender may require a full doc submission and may not accept the documents required for QB loans.

Q – Is there a Pre-Payment Penalty on QB loans?

A – Yes, on all Investment property loans Only (no pre-payment penalty on owner-occupied and second home properties). A Pre-Payment Penalty Rider will be executed at closing. The Pre-Payment Penalty is as follows: Prepayment is 3% during the 1st loan year, 3% during the 2nd loan year, and 3% during the 3rd loan year. Prepayment penalty is payable on entire UPB if loan is paid off in full. The pre-payment penalty cannot be bought out or reduced to a lesser term.

Q – A Broker Fee Agreement (BFA) was provided where the borrower agreed to pay the broker's fee *directly*, at time of commitment. Is this allowed?

A – Yes. Typically, the broker will be paid at closing through the loan. However, they have the option to be paid prior to closing. In order to ensure the fee has actually been paid prior to closing, Borrower will need to provide a copy of cancelled check payable to the Mortgage Broker, along with bank statement evidencing the withdrawal. If this documentation is not provided, then it is assumed that the broker fee has not been paid, and thus will be paid at time of closing.

Q – What is the maximum Discount Points Borrower can pay to buy-down their rate?

A – Refer to Rate Sheets.

Q – What are the expiration dates for a QB loan?

A – Credit reports must be updated if loan does not close by **90** days from report. Appraisal must be updated if loan does not close by **120** days from report. Income must be updated if loan does not close by **90** days from last reported income. On Purchases, Assets must be updated if loan does not close by **90** days from last statement. On Refinances where assets are needed to close (not including reserves), Assets must be updated if loan does not close by **90** days from last statement. On Refinances where assets are NOT needed to close (loan only requires reserves), Assets must be updated if loan does not close by **120** days from last statement.

Q – The subject condo/coop indicates a flip tax. Does that matter?

A – Depending on the flip tax, this could affect your Adjusted LTV. If the flip tax is less than or equal to 5% of the qualifying value, then there is no impact to the LTV. If the flip is calculated to be more than 5% of the qualifying value, then the LTV will be determined using the qualifying value less the flip tax. Please note that these calculations are made internally when qualifying the loan. They have no impact on the Final CD and closing costs. No actual changes to purchase price are made. However, if by doing these calculations the Adjusted LTV exceeds that maximum limits per the guidelines, the loan would be ineligible. If the flip tax is based on the seller's profit from the sale of the unit, then no calculation is required, since the future profit (if any) cannot be determined at time of the loan.

Q – The contract of sale states borrower is receiving a seller credit or sales concession. Are seller credits and sales concessions allowed?

A – We will now follow FNMA guidelines in regards to Seller's Concession / Seller Paid Closing Costs, up to:

- 6% on Owner-Occupied loans
- 3% on Investor DSCR (standard) loans
- 2% on Investor DTI and DSCR+ loans

Q – Borrower recently bought the property all cash in the last 6 months. Can we refinance the property to recoup the money use to purchase the property?

A – Yes, we can do a technical refinance / delayed purchase. The file will be documented just like purchase would. Contract of Sale would be required. Borrower will need to provide the most recent month's bank statement, including the evidence of the withdrawal of the down payment and funds to close the initial purchase transaction. Large deposits accumulating over \$10,000 will need to be sourced per usual. Gifts funds used towards the original purchase are permitted and must be documented according to guidelines. The Final CD / HUD / closing statement will need to be provided, along with deed evidencing the new owner(s). If it was truly an all cash deal, the closing statement will verify no financing used to purchase the property. The Qualifying LTV on the loan be based on the lesser of the actual purchase price and the appraised value.

The loan will be priced and qualified as a Rate/Term, No Cash-Out Refinance and indicated as such in Encompass. In order to get Pass results on the Quontic Qualifier, the proceeds at closing will need to be nullified (since netting over \$2,000 to borrower at closing will yield Fail results). To do so, in the Details of Transaction, take the calculated Cash To The Borrower and 'wash' it by negating the number in the M section, as demonstrated below:

1003 URLA - Lender		1003 URLA P1	1003 URLA P2	1003 URLA P3	1003 URLA P4
K. TOTAL MORTGAGE LOANS (Total of I and J)				\$	400,000.00
TOTAL CREDITS					
L. Seller Credits				\$	
M. Other Credits				\$	-380,223.04
M1. Total Closing Costs Paid by Lender and Other		\$			
M2. Total of Other Assets Applied to Loan		\$			
M3. Delayed Financing		\$	-380,223.04		
M4.		\$			
M5.		\$			
M6.		\$			
N. TOTAL CREDITS (Total of L and M)				\$	-380,223.04
CALCULATION					
TOTAL DUE FROM BORROWER(s) (Line H)					19,776.96
LESS TOTAL MORTGAGE LOANS (Line K) AND TOTAL CREDITS (Line N)					19,776.96
Cash From/To the Borrower (Line H minus Line K and Line N)					
NOTE: This amount does not include reserves or other funds that may be required by the Lender to be verified.					

Q – Can we do an owner-occupied cash-out refinance for a property in Texas?

A – As of 8/14/2023, Texas 50(a)(6) cash out refinances are permitted for Primary Residences only. Second home properties located in Texas are not eligible for cash-out refinance.

Q – Can we do an investment cash-out refinance for a property in Texas?

A – Yes.

Q – Can we waive escrows on the loan?

A – Typically, escrows for Real Estate Taxes and Homeowners' Insurance are required on all loan programs and all property types, with the exception to Coops. Escrow waivers are available, but only for loans that do not fall under the CFPB's Regulation Z (Truth-in-Lending) definition of a Higher-Priced Mortgage Loan ("HPML"). Please consult the lock desk to determine if loan is eligible for escrow waiver prior to request. Please note escrows cannot be waived if subject property is located in a FEMA flood zone where flood insurance is required.

Q – Borrower was not required to file tax returns for the latest year (due to being retired / on social security / income below a certain level, etc.). What can be provided to meet the CDFI requirements?

A – Provide the first page of the last filed tax return for the borrower, regardless of year. If borrower is retired for some time, then in lieu of the first page of the tax return, borrower may provide the most recent SSA-1099 Form.

Q – Are non-occupant co-borrowers allowed?

A – Non-Occupant co-borrowers are allowed for all loan programs. Please Note: this would only apply to DTI-qualifying loans. This should not apply to loans where DTI is not calculated.

Q – Can we close with a Power of Attorney?

A – Yes, see [POA Requirements \(9-29-2020\)](#). Under no circumstances will cash-out refinances be allowed with a POA.

Q – Can we close with a Power of Attorney on a Foreign National Purchase?

A – Yes, on a case by case basis and on a Foreign National DTI or DSCR+ loan only. POA must be signed and acknowledged by a US notary. We cannot accept a foreign notary on a POA (or on any other document for that matter). If borrower cannot be present in the US for the closing, they must go to the US Embassy / Consulate to get POA signed by a US notary.

Q – Borrower began their application as a purchase. Due to time constraints, borrower closed in cash or with hard money. Borrower now wants to proceed with the loan as a refinance. Do they need to start a new application or can we continue with the same loan file?

A – This is a valid and acceptable Change of Circumstance (CoC; Processor to complete). We can keep the same loan file with a letter of explanation from the borrower and written request changing the purpose from their initial application. The Underwriter should also provide a letter of explanation summarizing the change and why appraisal may still state this as a purchase transaction, in the event it is required later in post-closing audit. No appraisal corrections would be required, as appraisal was correctly done as purchase transaction as of the time of the inspection date.

Q – Husband and wife own a home with a first mortgage and are applying for a second mortgage. The first mortgage is solely in the name of the husband and payment are made from the husband's personal account. The wife is solely applying for the second mortgage. Does the payment of the first mortgage need to be included in the DTI even with proof that it is paid by another party?

A – Yes. Loan must be qualified on the *entire* subject housing payment, which includes the principle and interest of both first and second liens, taxes, insurance(s), and HOA dues (if applicable). This is true regardless of the obligor or if proof another party is making the payment.

Q – Do we accept e-signed documents and disclosures?

A - Yes; however, it's important to distinguish between what is acceptable and what is not. Acceptable computer-generated signatures must be accompanied with a confirmation or certificate of completion (see [DocuSign-consent](#) example).

Acceptable e-sign sample:



Unacceptable sample



Also, be very wary of signatures that are the same on all documents. If it appears the borrower's signature was copied and pasted, **DO NOT ACCEPT**. We all know that signatures have some slight variations. If a document has a wet signature but the date is typed in, **DO NOT ACCEPT**. If the borrower wet-signs a document, the date must also be wet-signed.

Last Modified: 7/12/2024 4:03:34 PM