



## Silvergate Bank Correspondent Lending (SCL)

### *IN FOCUS BULLETIN*

2014-13

August 21, 2014

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#### **Changes to Non-QM 5-1 ARM Product Guidelines**

Changes and clarification of highlight include:

- Increase of 5% in maximum LTV with a FICO score of at least 720
- Updates to credit standards including clarification on total loans to one borrower
- For any loans requiring 2 appraisals, the loan may be submitted with 1 appraisal and the second will be conditioned.

Please review the attached guidelines for all details pertaining to changes.

Please call Alan Peviani, (949) 795-5365, or any member of the Silvergate staff with any questions.  
Thank you for your business.



**Silvergate Bank - Correspondent Lending (SCL)**  
**Non-QM 5-1 ARM Product Guidelines**  
Effective Date: 8/18/2014

**Guideline Overview**

Loans meeting the parameters outlined in this guideline matrix must be consistent with the Dodd Frank Wall Street Reform Act Ability to Repay (ATR). Documentation standards are designed so that loans are made to borrowers who have demonstrated the ability and have the wherewithal to repay the debt. These programs require review and verification of documentation to ensure that the loans are 100% ATR compliant.

**Standard/Alternative Documentation and Asset Depletion products for Owner/Non-Owner Occupied properties**

**Standard Documentation**

Full Amortization Product Code 800 and Interest Only Product Code 801

Primary Residence, Second Home and Investment Properties - Owner Occupied and Non-Owner Occupied properties

Purchase, Rate & Term Refinance and Cash-Out Refinance

See Rate Sheet for Interest Rates, Index, Margin, Rate Cap structures, Interest Only and other rate adjustments

Property Type	Minimum Loan Amount	Maximum Loan Amount	Maximum LTV***	Maximum CLTV	Maximum Cash-Out†	Minimum Credit Score
1-Unit SFR and PUD	\$50,000	\$1,000,000	55%	75%***	Max equal to 55%/75% CLTV***	620
		\$2,500,000	50%	70%***	Max equal to 50%/70% CLTV***	620
Condominiums*	\$50,000	\$1,500,000	50%	70%***	Max equal to 50%/70% CLTV***	620
2-4 Units	\$50,000	\$2,500,000	50%	70%***	Max equal to 50%/70% CLTV***	620

**STANDARD DOCUMENTATION: for BOTH WAGE EARNER AND SELF EMPLOYED, INCOME VERIFICATION REQUIREMENTS**

Two (2) years of most recent tax returns or two (2) years of most recent W-2's and a paycheck stub reflecting the most recent 30 day period are required, unless DU/LP AUS findings require less, in which case, default to DU/LP AUS findings. In all cases, a processed 4506-T must be provided.

Submission and upload of DU AUS findings in Fannie Mae (FNMA) 3.2 format.

Minimum of two (2) most recent bank statements - SCL's Underwriter may request/require additional months of bank statements.

Debt to Income is defined as a roll up of all monthly debt obligations (all debts as defined by Ability to Repay rules).

Loans with Debt to Income (DTI) ratios less than or equal to 43%, then no residual income required.\*\*

Loans with Debt to Income (DTI) ratios greater than 43% require minimum residual income equal to .0045 (.45%) of the UPB. (UPB x 0.0045 = required residual income).

The maximum DTI is 55%; higher DTI will be considered on a case by case basis.

All secondary financing must be included in DTI calculation.\*\*\*

\*Condominiums must be warrantable by FNMA; non-warrantable condominiums will be reviewed on an individual basis.

\*\*Residual income is defined as the cash flow remaining after all monthly obligations have been paid.

\*\*\*Only institutional secondary financing will be accepted (SCL does not provide secondary financing).

\*\*\*\*An additional 5% LTV is available with a minimum FICO of 720

†No seasoning requirements on Cashout transactions

**Alternative Documentation**

Full Amortization Product Code 820 and Interest Only Product Code 821

Primary Residence, Second Home and Investment Properties - Owner Occupied and Non-Owner Occupied properties

Purchase, Rate & Term Refinance and Cash-Out Refinance

See Rate Sheet for Interest Rates, Index, Margin, Rate Cap structures, Interest Only and other rate adjustments

Property Type	Minimum Loan Amount	Maximum Loan Amount	Maximum LTV*****	Maximum CLTV	Maximum Cash-Out†	Minimum Credit Score
1-Unit SFR and PUD	\$50,000	\$1,000,000	55%	75%***	Max equal to 55%/75% CLTV***	620
		\$2,500,000	50%	70%***	Max equal to 50%/70% CLTV***	620
Condominiums*	\$50,000	\$1,500,000	50%	70%***	Max equal to 50%/70% CLTV***	620
2-4 Units	\$50,000	\$2,500,000	50%	70%***	Max equal to 50%/70% CLTV***	620

**ALTERNATIVE DOCUMENTATION: INCOME VERIFICATION REQUIREMENTS**

Designed for credit worthy self-employed borrowers (Primary borrower must be self-employed; may have W-2 co-borrower) Tax returns and IRS form 4506T **will not be** required.

Business phone number must be verifiable via 411 or the internet.

Submission and upload of DU AUS Findings in FNMA 3.2 format.

Borrower must be self-employed for at least 2 years in the same business.

Debt to Income is defined as a roll up of all monthly debt obligations (all debts as defined by Ability to Repay rules).

Loans with Debt to Income (DTI) ratios < or = to 43%, then no residual income required.\*\*

Loans with Debt to Income (DTI) ratios > or 43% require minimum residual income equal to .0045 (.45%) of the UPB. (UPB x 0.0045 = required residual income)

The maximum DTI is 55%; higher DTI will be considered on a case by case basis.

All secondary financing must be included in DTI calculation.\*\*\*

**Three Options for Alternative Income Verification:**

**Option #1: 12 months personal bank statements**

**Available to any borrower with a 25% or greater ownership interest in a business\*\*\*\***

• A 12 month P&L prepared by borrower, or 3rd party CPA or tax preparer and covering the same time period to further validate the income shown in the bank statements.

• 12 months of personal bank statements to determine income derived from business (income stated on 1003).\*\*

• A CPA/tax preparer's attestation of borrower's % of ownership and that the borrower has been self-employed in the same business for a minimum of two years.

**Option #2: Net Business Income—borrower income verification utilizing a business P&L statement**

**Available to any borrower with 100% ownership in a business (corporation where 100% of shares are owned by borrower, single member LLC, single partner partnership or sole proprietor),\*\*\*\***

• Most recent 12 month P&L prepared by 3rd party CPA or tax preparer, borrower will be qualified based on the net income shown in the P&L (income stated on 1003).

• 3 months of personal bank statements are required to be commensurate with the net income shown in the P&L\*\*\*\*\*

• A CPA/tax preparer's attestation of borrower's % of ownership and that the borrower has been self-employed in the same business for a minimum of two years.

**Option #3: CPA/Tax Preparation Firm Letter**

**Available to any borrower with a 25% or greater ownership interest in a business.\*\*\*\***

• CPA/tax preparer letter stating business income taken by borrower over the last 12 months (income stated on 1003).

• Most recent three (3) months personal bank statements (Client's underwriter may require additional months).

• A CPA/tax preparer's attestation of borrower's % of ownership and that the borrower has been self-employed in the same business for a minimum of two years.

<b>Bank Statement Review Guidance</b>						
<ul style="list-style-type: none"> <li>Income is considered to be transfers from business accounts, deposits from business accounts, deposits from business accounts through an ATM and payroll check deposits.</li> <li>Average monthly income over 12 months.</li> </ul>						
<p>*Condominiums must be warrantable by FNMA; non-warrantable condominiums will be reviewed on an individual basis.</p> <p>**Residual income is defined as the cash flow remaining after all monthly obligations have been paid.</p> <p>***Only institutional secondary financing will be accepted (SCL does not provide secondary financing).</p> <p>****Validating Percentage of Ownership: Validating may be through Articles of Incorporation, State DOC, and/or similar source.</p> <p>*****Sole-proprietors may use both personal and/or business bank statements to determine personal net income.</p> <p>*****An additional 5% LTV is available with a minimum FICO of 720</p> <p><sup>1</sup>No seasoning requirements on Cashout transactions</p>						
<p align="center"><b>ASSET DEPLETION</b></p> <p align="center">Full Amortization Product Code 840 and Interest Only Product Code 841</p> <p align="center">Primary Residence, Second Home and Investment Properties - Owner Occupied and Non-Owner Occupied properties</p> <p align="center">Purchase, Rate &amp; Term Refinance and Cash-Out Refinance</p> <p align="center">See Rate Sheet for Interest Rates, Index, Margin, Rate Cap structures, Interest Only and other rate adjustments</p>						
Property Type	Minimum Loan Amount	Maximum Loan Amount	Maximum LTV***	Maximum CLTV	Maximum Cash-Out <sup>1</sup>	Minimum Credit Score
1-Unit SFR and PUD	\$50,000	\$1,000,000	55%	55%	Max equal to 55%LTV	620 or equivalent for FN
Condominiums*	\$50,000	\$2,500,000	50%	50%	Max equal to 50%LTV	620 or equivalent for FN
2-4 Units	\$50,000	\$1,500,000	50%	50%	Max equal to 50%LTV	620 or equivalent for FN
<p>1. Asset Depletion (AD) can be used to meet ATR requirements. AD can be used to supplement other income in order to lower the DTI, subject to limitations in items #2 or #3 listed below:</p> <ul style="list-style-type: none"> <li>Eligible assets include: Cash or cash equivalents; marketable securities (i.e. CDs, money market accounts; savings; stocks; bonds; and mutual funds).</li> <li>Ineligible assets include: equity in real estate; private traded stocks</li> <li>Retirement assets may only be used for AD if the borrower is retirement age (at least 59 1/2).</li> <li>All assets considered for AD must be verified through either an account statement from the most recent 30 day period, or a Verification of Deposit (when available).</li> </ul> <p>2. 50% Income derived from the asset:</p> <ul style="list-style-type: none"> <li>If retirement income is \$50,000 per year then allowable contribution to income from AD will be limited to not more than an additional \$50,000 per year; overall \$100,000 in income.</li> <li>The amortization period used to calculate the depletion of the asset will be based on a 5% factor, i.e.: <ul style="list-style-type: none"> <li>If the asset value is \$1,000,000; factor is 5%: the amount of the asset that can be used to supplement the income is \$50,000 annually.</li> <li>5% factor is equivalent to a 20 year amortization table for the asset.</li> </ul> </li> </ul> <p>3. 100% Income derived from the asset:</p> <ul style="list-style-type: none"> <li>SCL will allow up to 100% of the asset to be allocated to the borrower, as income;</li> <li>The amortization period will be 20 years, and in any event the maximum loan amount shall not exceed 20% of the borrower's asset. <ul style="list-style-type: none"> <li>If the asset value is \$1,000,000; the loan amount shall not exceed \$200,000, borrower's income is not a factor</li> <li>5% factor is equivalent to a 20 year amortization table for the asset.</li> </ul> </li> </ul> <p>4. Foreign national non-permanent resident aliens (visitor visa) are allowed to utilize AD provided that:</p> <ul style="list-style-type: none"> <li>Documentation sourcing the origin of the wealth** used for both income and assets (i.e. business, inheritance, etc.) must be provided.</li> <li>Funds must be seasoned in a domestic account for a minimum of 6 months.</li> <li>Income (if any is considered per #2 above) must be domestic and verified following one of the documentation methods listed within the matrix. Income must be commensurate with the employment position.</li> </ul> <p>*Condominiums must be warrantable by FNMA; non-warrantable condominiums will be reviewed on an individual basis.</p> <p>**Additional information may be requested to validate the origin of the wealth.</p> <p>***An additional 5% LTV is available with a minimum FICO of 720</p> <p><sup>1</sup>No seasoning requirements on Cashout transactions</p>						
<b>INTEREST ONLY</b>						
Interest-only loans are interest only for 60 months, then are fully amortizing for 300 months.						
<b>STATE ELIGIBILITY</b>						
Eligible for purchase in all states except New York, Missouri, Illinois, Cash out in Texas, and U.S. Territories; State specific regulations supersede guidelines stated herein						
<b>HIGH COST MORTGAGE LOANS: Section 32</b>						
High Cost Mortgage Loans, as defined by applicable federal, state, local and secondary market regulations <b>are not eligible</b> for purchase.						
<b>HIGHER PRICED MORTGAGE LOANS: Section 35</b>						
Higher Priced Mortgage Loans are eligible for purchase but are required to establish and fund an escrow account for property taxes and insurance. Impound accounts are mandatory for 5 years.						
<b>POINTS AND FEES</b>						
Limited to not more than 3%						
<b>CREDIT STANDARDS</b>						
Mortgage/Rent	0 x 30 in past twelve (12) months (No exceptions).					
Installment Debt	At least one installment trade line is required within the past thirty six (36) months.					
Trade Lines	3 active trade lines seasoned for at least twenty four (24) months.					
Departing Residence Income	Per current FNMA guidelines, the residence being departed and retained as investment must have at least 30% equity to consider rental income for qualification. An AVM is required.					
Financing and Sales Concessions	Interested 3rd party concessions are allowed per FNMA guidelines on owner occupied properties only.					
HELOC Payments on additional properties	If a HELOC or other subordinate lien is not identified on the credit report, then documentation must be provided to verify payment amount.					
Foreclosure/Short Sale/BK/Loan Modification	Must be seasoned for more than twelve (12) months - see rate sheet for Rate Adjustment for borrowers seasoned less than 36 months.					
Judgment/ Tax Liens/Collections/Charge-Offs	Must be paid off and no new derogatory credit within the past 12 months (medical excluded).					
Ability to Repay	<p>Client Underwriters will evaluate the borrower's liabilities to help assess Ability to Repay, including the following:</p> <ul style="list-style-type: none"> <li>Any monthly payment on any simultaneous loan</li> <li>The borrower's monthly payment for mortgage-related obligations</li> <li>The borrower's current debt burdens, alimony, and child support, etc.</li> <li>Credit limits, usage and overall credit profile – this should be consistent with the income used for qualifying the borrower</li> </ul>					
Rental Income	Rental income used for qualification must be documented with lease(s). Borrower will be credited 75% of lease rent amount, minus PITI+ to determine net rental income.					
Loans to One Borrower	Not to exceed 8 properties, and/or \$2,500,000.					
Credit Documentation	May not be more than 90 days old at the time of close					

QUALIFYING		
All loan files are required to be submitted with FNMA DU AUS findings (FNMA 3.2 format); Approve/Ineligible or other status; DU results used primarily for credit analysis purposes.		
<b>Qualifying Interest Rate: Full Amortization</b>		
Qualify at the greater of the introductory or fully-indexed rate (current index plus applicable margin) and monthly, fully-amortizing payments that are substantially equal (to be substantially equal, no two monthly payments should vary by more than 1 percent).		
<b>Qualifying Interest Rate: Interest Only</b>		
Qualify at the fully amortizing payment - the greater of the introductory or fully-indexed rate (current index plus applicable margin) and substantially equal monthly payments of principal and interest that will fully repay the loan over the remaining term of the loan as of the date the loan is converted from interest only to principal and interest.		
ASSETS/RESERVES		
Property Type	Loan Amount	Required Reserves
All Property Types	Up to \$1,000,000	9 months, verified PITI
	\$1,000,001 – \$1,500,000	12 months, verified PITI
	\$1,500,001 – \$2,500,000	18 months, verified PITI
Full Asset Documentation is required for both funds to close and reserves. Assets can be cash in the bank, stocks, bonds, IRA's, 401K's, mutual funds or retirement accounts. For most asset types, this would include all pages of the most recent two months consecutive statements or the most recent quarterly statement.		
In addition to the minimum PITI reserve requirements, borrowers must also disclose and verify all other liquid assets.		
Borrowers with financed properties are required to document an additional 2 months PITI + reserves for each property <i>in addition to the subject property - limit 10 financed properties.</i>		
Stocks/Bonds/Mutual Funds - 70% available may be considered for reserves.		
Vested Retirement Account funds - 60% may be considered for reserves.		
Reserves provided by a sole proprietor must be separate from the day to day business cash flow		
Calculating Reserves for Investment, NOO Properties: PITI+ plus the following is the monthly housing expense for a property and includes the following:		
<ul style="list-style-type: none"> <li>• Principal and interest (P&amp;I);</li> <li>• Hazard, flood, and mortgage insurance premiums (as applicable);</li> <li>• Real estate taxes;</li> <li>• Any Special assessments;</li> <li>• Any owners association dues (including utility charges that are attributable to the common areas; but excluding any utility charges that apply to the individual unit);</li> <li>• Any subordinate financing payments</li> </ul>		
An Additional 2 months Reserves for NOO properties shall be calculated using the worst-case (e.g., properties with the highest monthly expenses are counted first) when borrower has more than 10 properties.		
APPRAISAL GUIDELINES		
Loan Amount	Appraisal Requirement	
Up to \$1,000,000	One Full Appraisal	Must have 3 sold comps in past 6 months
\$1,000,001 to \$2,500,000	Two Full Appraisals	Must have 5 sold comps in past 12 months
3rd Party Valuation: A Valuation Services Appraisal Risk Review (ARR) is required that supports the property value within 10% (higher or lower than appraised value).		
When two (2) appraisals are required, the ARR must support the value of the lower appraisal within 10% (higher or lower than appraised value). If value variance exceeds 10% then a field review will be required.		
For any Loan requiring 2 appraisals, the loan may be submitted for review with 1 appraisal and the second appraisal will be conditioned.		
For any For Sale By Owner (FSBO) properties, 2 Full Appraisals are required:		
If a property has been "flipped" in the last 180 days, a second appraisal is required.		
All transactions will require a new appraisal. For properties purchased or refinanced within the last 6 months, the lesser of the purchase price or current appraised value will be utilized to determine the subject property value. If property		
For transactions which occurred more than 1 year prior, the value as reflected on the appraisal will be used.		
Compliance Note: The ECOA Valuations Rule requires that copies of appraisals and other written valuations be delivered to borrower promptly upon completion, or within three (3) business days prior to loan closing.		
ELIGIBLE BORROWERS		
US Citizens		
Foreign nationals - permanent resident aliens with appropriate documentation.		
First time home buyers: full documentation only; underwriter should use discretion when considering DTI and payment shock.		
"For Sale By Owner" transactions must be closed through escrow with an executed real estate sales contract in evidence.		
Realtors are considered self-employed.		
Non-occupant co-borrowers are allowed provided they are a disclosed on the original application; they cannot be added at a later date to qualify.		
INELIGIBLE BORROWERS		
Applicants possessing diplomatic immunity		
Non-arms length transactions are not eligible for financing under this product. Non-arms length transactions include, but are not limited to:		
<ul style="list-style-type: none"> <li>• Owners, employees or family members of originating entity,</li> <li>• Renters buying from landlord.</li> </ul>		
INELIGIBLE PROPERTIES		
•Acreage greater than 5 acres (appraisal must include total acreage) •Agricultural zoned property-Condo hotel-Co-ops-Hobby Farms-Income producing properties with acreage-Leaseholds-Log Homes• Manufactured housing •Mixed use properties •Modular homes •Properties subject to oil and/or gas leases •Title may not be held in a business name •Unique properties •Working farms, ranches or orchards		
SOURCE OF FUNDS		
Borrower must contribute at least 30% toward the transaction from their own funds for purchase transactions.		
GIFT FUNDS		
Acceptable after a minimum 30% down payment has been made by the borrower from their own resources. It should be considered if the Asset Base and Reserves are consistent with the borrower's occupation; cash flows evidenced on the Bank Statements; and income submitted for qualifying purposes. Gifts of equity are not allowed.		

POWERS OF ATTORNEY
Loans closed via Power of Attorney are not eligible for purchase by Silvergate Bank.
ARM NOTE
ARM Documents: 5/1 ARM; 5-2-5 caps; initial rate is equal to the floor; 1 yr LIBOR index; Margin is 275; may use Fannie Mae (FNMA) ARM Note 3528, modified as described.
Assumability: ARM may be assumable to a qualified borrower, after the fixed term of the loan. Conversion Option: Conversion to Fixed, not allowed

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Refer to SCL's [In Focus Bulletins](#) for changes relating to guideline amendments.  
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