



Silvergate Funding, Inc.

## Silvergate Funding, Inc (“SFI”)

### IN FOCUS BULLETIN

2014-06

April 28, 2014

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#### **Updated Portfolio Product Guidelines**

SFI’s Portfolio ARM Product Guidelines have been updated. The new Product Guideline is being sent with this bulletin.

Summary of the changes:

- The Title Vesting products (codes 830 and 831) have been eliminated.
- New product class is now available - Asset Depletion;
  - Full Amortization (product code 840)
  - Interest Only (product code 841)
- Alternative Documentation Income Verification methods have been updated.
- New CLTV guidelines are now available for Standard and Alternative Documentation products (800/801 and 820/821) with CLTV’s up to 75 and 70 (Product Guideline presents details). Secondary financing is not accepted for the new Asset Depletion product.
- Any second lien is required to be sourced from an institutional source.

Many other elements have been refined. Please review the Guideline for all changes.

**Please contact:**

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***Thank you for doing business with SFI.***





**Silvergate Funding, Inc.**  
**5-1 Portfolio ARM Product Guidelines**  
 Effective Date: 4/28/14

**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: 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 - SFI 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 (SFI does not provide secondary financing).

**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**

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\*\*\*\***
- 12 months of personal bank statements to determine income.\*\*
  - 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.
  - A CPA/tax preparer's attestation 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).\*\*\*\***
- 3 months of personal bank statements are required to further validate the net income shown in the P&L.\*\*\*\*\*
  - 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.
  - CPA/tax preparer's attestation 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.\*\*\*\***
- Most recent three (3) months banks statements (underwriter may require additional months).
  - CPA/tax preparer letter stating business income taken by borrower over the last 12 months.
  - CPA/tax preparer's attestation that the borrower has been self-employed in the same business for a minimum of two years.

**Bank Statement Review Guidance**

- Income is considered to be transfers from business accounts, deposits from business accounts, deposits from business accounts through an ATM and payroll check deposits.
- Average monthly income over 12 months.

\*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 (SFI does not provide secondary financing).  
 \*\*\*\*Validating Percentage of Ownership: Validating may be through Articles of Incorporation, State DOC, and/or similar source.  
 \*\*\*\*\*Sole-proprietors may use both personal and/or business bank statements to determine personal net income.

**ASSET DEPLETION**  
**Full Amortization Product Code 840 and Interest Only Product Code 841**  
**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%	55%	Max equal to 55%LTV	620 or equivalent for FN
		\$2,500,000	50%	50%	Max equal to 50%LTV	620 or equivalent for FN
Condominiums*	\$50,000	\$1,500,000	50%	50%	Max equal to 50%LTV	620 or equivalent for FN
2-4 Units	\$50,000	\$2,500,000	50%	50%	Max equal to 50%LTV	620 or equivalent for FN

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:

- Eligible assets include: Cash or cash equivalents; marketable securities (i.e. CDs, money market accounts; savings; stocks; bonds; and mutual funds).
- Ineligible assets include: equity in real estate; private traded stocks
- Retirement assets may only be used for AD if the borrower is retirement age (at least 59 1/2).
- 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).

2. 50% Income derived from the asset:

- 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.
- The amortization period used to calculate the depletion of the asset will be based on a 5% factor, i.e.:
  - 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.
  - 5% factor is equivalent to a 20 year amortization table for the asset.

3. 100% Income derived from the asset:

- SFI will allow up to 100% of the asset to be allocated to the borrower, as income;
- The amortization period will be 20 years, and in any event the maximum loan amount shall not exceed 20% of the borrower's asset.
  - If the asset value is \$1,000,000; the loan amount shall not exceed \$200,000, borrower's income is not a factor
  - 5% factor is equivalent to a 20 year amortization table for the asset.

4. Foreign national non-permanent resident aliens (visitor visa) are allowed to utilize AD provided that:

- Documentation sourcing the origin of the wealth\*\* used for both income and assets (i.e. business, inheritance, etc.) must be provided.
- Funds must be seasoned in a domestic account for a minimum of 6 months.
- 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.

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

\*\*Additional information may be requested to validate the origin of the wealth.

**INTEREST ONLY**

Interest-only loans are interest only for 60 months, then are fully amortizing for 300 months.

**STATE ELIGIBILITY**

Eligible for purchase in all states except New York, and U.S. Territories.

**HIGH COST MORTGAGE LOANS**

High Cost Mortgage Loans, as defined by applicable federal, state, local and secondary market regulations are not eligible for purchase.

**HIGHER PRICED MORTGAGE LOANS**

Higher Priced Mortgage Loans are eligible for purchase but are required to establish and fund an escrow account for property taxes and insurance.

**CREDIT STANDARDS**

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.
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.

**Qualifying Interest Rate: Full Amortization**

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).

**Qualifying Interest Rate: Interest Only**

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

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 6 months PITI reserves for each property in addition to the subject property - limit 10 financed properties.

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

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
An AVM in lieu of a full appraisal may be utilized for non HPML loans for the prior approval underwrite by SFI and must be submitted with the credit file and DU AUS findings (FNMA 3.2 format).		
If a property has been "flipped" in the last 180 days, a second appraisal is required.		
For properties purchased or refinanced within the last 6 months, the value of the property at the time of the purchase or refinance will be used. If property valuation has increased by 10% in the last 7-12 months, a second appraisal is required.		
For transactions which occurred more than 1 year prior, the value as reflected on the appraisal will be used.		

ELIGIBLE BORROWERS
US Citizens
Foreign nationals - permanent resident aliens with appropriate documentation.
First time home buyers; full documentation only.
"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
Leased land.
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.
ARM NOTE
Use Fannie Mae (FNMA) ARM Note 3502.

Refer to SFI *In Focus Bulletins* for changes relating to guideline amendments.  
This information is subject to change at any time without notice. Please contact your SFI Account Manager for full details.  
This information is for use by mortgage professionals and should not be shared with borrowers.

