



QUONTIC BANK

FULL DOC

CLOSED-END SECOND MORTGAGE

PRODUCT GUIDELINES

04/11/2024

FULL DOC SECONDS 1-4 FAMILY, CONDO, PUD				
OCCUPANCY	Units	MAXIMUM LOAN AMOUNT	MAX CLTV	MIN FICO
PRIMARY RESIDENCE	1	\$250,000	85%	740
	1	\$500,000	80%	700
	1	\$500,000	75%	680
	2-4	\$500,000	65%	680
SECOND OR VACATION HOME	1	\$500,000	80%	740
	1	\$500,000	75%	680
INVESTOR	1	\$500,000	75%	740
	1	\$500,000	70%	700
	2-4	\$500,000	65%	700
NOTES	<ul style="list-style-type: none"> • Warrantable Condos: Max 80% CLTV • 2-4 Unit Properties: Max 65% CLTV • Non-Permanent Residents - Primary Residences ONLY • 2-4 Unit Second Homes, Co-ops, and Non-Warrantable Condos are Ineligible. • Properties located in Texas, Tennessee, and in Rural Areas are Ineligible. 			

UNDERWRITING GUIDELINES

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

Program Overview

- The Quontic Closed End Second Lien Program is intended to reference and supplement Fannie Mae's Seller Guide or Freddie Mac's Seller Guides. Loans must be underwritten entirely to either Fannie Mae Guides or Freddie Mac Guides; commingling of guidelines for qualification is not permitted. Refer to the Fannie Mae or Freddie Mac Seller Guide for specific information concerning qualification requirements that are not specifically referenced herein. To the extent there is a difference in standards between the Quontic Overlays and the Fannie Mae Guides/Freddie Mac guides, the Quontic Overlays will supersede.

Application:

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

Loan Terms:

- 15-Year Fixed
- 30-Year Fixed

Minimum Loan Amount:

- \$100,000

Maximum Loan Amount:

- \$500,000 (refer to Matrix)

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

- \$2,500,000

Subject Property Financing Restrictions:

- Max two (2) consumer lending products on a single property inclusive of subject second lien.
- 1st Lien cannot be a HELOC.
- New subject lien may pay off existing junior lien on property.

First Mortgage Requirements / Documentation:

- \$2,500,000 Maximum Loan Amount (1st & 2nd Lien combined)
- Must document 1st mortgage with a copy of 1st mortgage note and billing statement.
- Ineligible 1st Mortgage Products & Terms:
 - PACE loans (or any similar loans with payments that are included in property taxes or take lien priority).
 - Loans with a Negative Amortization feature
 - Outstanding term > 30 years
 - Loans in active forbearance or deferment
 - Reverse Mortgages
 - Private 1st liens
 - Balloon loans with a maturity date before the maturity date of the 2nd subject lien
 - First Lien HELOC
 - Land Contracts

- Cross Collateralized loans

Ineligible 1st Lien Transactions:

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

Borrower Eligibility:

- US Citizens.
- Permanent Residents (refer to Fannie Mae or Freddie Mac Guidelines)
- Non-Permanent Residents with valid Employment Authorization or VISA (Primary Residences ONLY; refer to Fannie Mae or Freddie Mac Guidelines)

Ineligible Borrowers:

- ITIN Borrowers
- Foreign Nationals
- Irrevocable or Blind Trusts
- Land Trusts
- Borrowers with diplomatic immunity
- DACA & Asylum applicants
- Self-employed Borrower deriving their income from any Cannabis related business.
- Borrower(s) with residence of any country not permitted to conduct business with U.S. Companies as determined by U.S. government authority.
- Non-Occupant Co-Borrowers
 - Non-Occupant Co-Borrowers are credit applicants that do not occupy the subject property.
 - Not Eligible if a Non-Occupant Co-Borrower is on either the 1st or 2nd lien.

Credit Requirements:

- A tri-merge credit report is required for each borrower.
- Credit reports expire after 90 days.
- To determine the Representative Credit Score, select the middle score when three (3) agency scores are provided and the lower score when only two (2) agency scores are provided.
- Representative Credit Score of the Primary Wage Earner is used to qualify. In cases where borrowers earn the same amount, use the lower of the representative credit score to qualify. Primary Wage Earner must have a valid score from at least two (2) of the three (3) credit reporting agencies.
- No late mortgage payments (on subject or other REO) in prior 12 months.
- Tradelines must be documented per Fannie Mae or Freddie Mac Guidelines.

Eligible Properties:

- Single-Family Residences
- 2-4 Units (Primary Residence Only; 2-4 Unit Second Homes are ineligible)

- PUDs
- Warrantable Condos.

Ineligible Properties:

- Non-Warrantable Condos
- Condotels
- Condo projects with registration services or restrictions on owner's ability to occupy.
- Live / Work Condos
- Coops
- 2-4 Unit Second Homes
- Properties located in the States of Texas and Tennessee.
- Properties located in Rural areas.
- Manufactured Homes
- Log Homes
- Unique Properties
- Mixed Use Properties
- Builder Model Leaseback
- Boarding Houses / Group Homes
- Fractional Ownership / Timeshares
- Assisted Living/Continuing Care Facilities
- Mandatory Country Club Memberships
- Zoning Violations
- Properties under Construction
- Working Farms
- C5 or C6 Property Condition Grades
- Geodesic Domes
- Houseboats
- Homes on Native American Land (Reservations)
- Properties used for the cultivation, distribution, manufacture, or sale of Marijuana.
- Theme Park Resort Properties

Qualification Rates:

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

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

- Max DTI:
 - Primary Residence: Max 50% DTI Ratio
 - Second Home: Max 45% DTI Ratio
 - Investment: Max 45% DTI Ratio
- DTI should be recalculated based on any new debt.
- If 1st lien is an Interest Only loan, fully amortizing payment will be used to qualify.
- If the underlying 1st lien is an Adjustable-Rate Mortgage ("ARM"), the higher of the fully indexed rate or note rate should be used to qualify.

Employment/Income/Liability Documentation:

- Document employment, income, and liabilities per Fannie Mae Seller Guidelines or Freddie Mac Guidelines.

- Verbal Verification of Employment (VVOE) must be obtained within ten (10) business days prior to the Note Date and within one hundred twenty (120) calendar days prior to the Note Date for self-employment income. Post closing VVOE will not be accepted.

Other Real Estate Owned:

- Document per Fannie Mae Seller Guidelines or Freddie Mac Guidelines.
- Max Financed Properties = Twenty (20)

Asset Documentation / Verification:

- Document assets per Fannie Mae Seller Guidelines or Freddie Mac Guidelines.

Cash Reserve Requirements:

- Not required.

Cash-Out Proceeds:

- Unlimited cash-out proceeds.

Cash-Out CLTV:

- Must use the lesser of the appraised value and the purchase price for properties owned less than 12 months.
- Properties that have been on the market within six months of the application date are ineligible.

Prepayment Penalties:

- None

Mortgage Insurance:

- Not Required.

Title Insurance:

- For loan amounts less than or equal to \$250,000:
 - Owner's & Encumbrance Report verifying and validating the senior lien; or
 - ALTA Standard Coverage Policy; or
 - ALTA Residential Limited Coverage Junior Loan Policy
- For loan amounts >=\$250,000:
 - ALTA Standard Coverage Policy insuring the second lien amount.

Property Insurance:

- Refer to FNMA guidelines. A homeowner insurance policy must be obtained with replacement cost coverage equal to the *lesser* of the following:
 - 100% of the insurable value of the improvements, as established by the property insurer; *or*
 - the total unpaid principal balance of the mortgages, including subject second lien.
- Condominiums: Individual condo units must obtain a HO-6 Policy unless the Master Condo policy included walls in coverage.
- All investment properties and 3-4 unit primary residence properties require Rent-Loss coverage equal to or greater than 6 months of total gross rents.
- Properties located in Flood Zone must obtain Flood insurance with coverage of at least the *lower* of:
 - 100% of the replacement cost of the insurable value of the improvements,
 - The unpaid principal balance of the mortgage loan, *or*,
 - The maximum insurance available from the NFIP.

Escrows:

- Not Applicable.

Escrow Holdbacks:

- Not Permitted.

Personal Guarantee:

- Full personal recourse required.

Derogatory Event History:

- The Minimum Derogatory Event seasoning period of four (4) years.
- Quontic defines Derogatory Events as:
 - Bankruptcies (Chapter 7, 11, and 13)
 - Foreclosures
 - Short Sale
 - Deed in Lieu
 - Default Modification
 - Notice of Default
 - Lis Pendens
 - 120+ Days Delinquent
- Defaulted 1st and 2nd mortgages on same property are considered one (1) event.
- Events include all occupancy types (Primary, Second Home, and Investment Properties).
- Seasoning lookback is from the date of discharge / dismissal or property resolution (completion date), as of the Note date.
- Default Modification look back commences at inception (when loan was permanently modified).
- Extenuating circumstance seasoning is not permitted.
- Borrowers with multiple Derogatory Housing Events within the last seven (7) years are not eligible

Appraisal Requirements:

- For loan amounts equal to or less than \$250,000:
 - Full Appraisal, Exterior Appraisal (2055) or AVM a Clear Capital Automated Valuation Model (AVM)
 - AVM may be permitted under the following circumstances:
 - Must be submitted with a property condition report detailing exterior photos. Property condition report to show the underlying property to be in adequate condition.
 - AVM must be dated within 60 days of the Note Date.
 - AVM must be Confidence Score greater than 80%
- For loan amounts greater than \$250,000, a full interior/exterior appraisal is required.
- Loans with HPML designation require a Full Appraisal. See HPML Section for more details.
- Appraisals are good for 120 days. Any appraisal seasoned greater than 120 days will require a recertification of value completed by the original licensed appraiser. A recertification of value will be permitted up to 180 days.
- Legal non-conforming zoned properties must indicate that the subject property can be rebuilt if it is severely damaged or destroyed.
- Appraisals with condition or quality ratings of C5 or C6 are not eligible.
- Form 1007 Schedule of Rents is required for all Non-Owner-Occupied loans on Single Family residences.
- **Declining Markets:** If the appraisal indicates the subject property is located in a declining market, the

maximum LTV will be reduced by 10%.

Appraisal Transfers:

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

FEMA Disaster Areas:

- Quontic must ensure that if the subject property is located in a FEMA disaster area that the property has not been adversely impacted by the event.
- A list of federally declared disaster areas may be found on the FEMA website at <http://www.fema.gov.disasters> .
- Guidelines for disaster areas should be followed ninety (90) days from the event period ending date or the date the adverse event occurred, whichever is greater.
- If appraisal was completed prior to disaster event:
 - Interior and exterior inspection of the subject property is required.
 - Appraisal update or final inspection from the appraiser must be obtained.
 - Damage that impacts the safety or habitability of the property or damage in excess of \$2,000 will not be permitted to close.
- If appraisal was completed after disaster event:
 - Appraiser must comment on the adverse event and any effect on marketability or value.
 - Damage that impacts the safety or habitability of the property or damage in excess of \$2,000 will not be permitted to close.
- If disaster event occurs after closing but prior to funding:
 - A Post Disaster Inspection (PDI) Report from Clear Capital required.
 - Any indication of damage reflected on the report will require a re-inspection by the appraiser.
 - Damage that impacts the safety or habitability of the property or damage in excess of \$2,000 will not be permitted to close.
- Verbal Verification of Employment:
 - A new Verbal Verification of Employment (VVOE) will be required if the disaster event occurs after the original VVOE was completed.
 - Borrower should still be employed at the same employer listed on the initial 1003 and continuing to receive the same amount of income.

High Cost:

- Agency, Federal, State, and Local High-Cost Loans are not permitted.

Higher-Priced Mortgage Loan (“HPML”):

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

Compliance:

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

Benefit To Borrower:

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

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